

*In the opinion of Co-Bond Counsel, under existing law and assuming compliance with the tax covenants described herein, and the accuracy of certain representations and certifications made by the City described herein, interest on the Series 2007A Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"). Co-Bond Counsel are also of the opinion that such interest is not treated as a preference item in calculating the alternative minimum tax imposed under the Code with respect to individuals and corporations. Interest on the Series 2007A Bonds is, however, included in the adjusted current earnings of certain corporations for purposes of computing the alternative minimum tax imposed on such corporations. Co-Bond Counsel are further of the opinion that, under existing law and assuming that interest on the Series 2007A Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Code, interest on the Series 2007A Bonds is excluded from Missouri taxable income for the purposes of the personal income tax and corporate income tax imposed by the State of Missouri. See "TAX MATTERS" herein regarding certain other tax considerations.*

**\$231,275,000**

**The City of St. Louis, Missouri  
Airport Revenue Refunding Bonds  
Series 2007A (Non-AMT)  
(Lambert-St. Louis International Airport)**

**Dated: Date of Delivery**

**Due: July 1, as shown on the inside cover**

The City of St. Louis, Missouri, Airport Revenue Refunding Bonds, Series 2007A (Non-AMT) (Lambert-St. Louis International Airport) (the "Series 2007A Bonds") will be issued by The City of St. Louis, Missouri (the "City"), under and pursuant to the Amended and Restated Indenture of Trust dated as of October 15, 1984, as amended and restated as of September 10, 1997, as amended and supplemented, including by the Fourteenth Supplemental Indenture of Trust, dated as of January 1, 2007 (collectively, the "Indenture"), between the City and UMB Bank, N.A., as Trustee (the "Trustee").

**The Series 2007A Bonds are limited obligations of the City, payable solely from Revenues, as defined herein, to be derived by the City from the operation of Lambert-St. Louis International Airport (the "Airport") and certain other funds pledged under the Indenture. The Series 2007A Bonds do not constitute an indebtedness of the City within the meaning of any constitutional or statutory limitation or provision, and the taxing power of the City is not pledged to the payment of the Series 2007A Bonds, either as to principal, premium (if any) or interest. The Series 2007A Bonds will be secured on a parity basis with the City's Outstanding Bonds, as defined in the Indenture, and any additional bonds issued under the Indenture (the "Bonds") as more fully described herein.**

The proceeds of the Series 2007A Bonds, together with other available funds, will be used to: (i) refund a portion of certain prior Bonds issued under the Indenture (as more fully described herein) for the purpose of achieving interest cost savings; (ii) fund the reserve requirement for the Series 2007A Bonds; and (iii) pay costs of issuing the Series 2007A Bonds.

Interest on the Series 2007A Bonds is payable on January 1 and July 1 of each year, commencing July 1, 2007, until maturity or prior redemption. The Series 2007A Bonds are initially issuable only to Cede & Co., the nominee of The Depository Trust Company ("DTC") pursuant to the book-entry-only system described herein. Beneficial ownership may be acquired in denominations of \$5,000 or any integral multiples thereof. No physical delivery of the Series 2007A Bonds will be made to the purchasers. Principal of and interest on the Series 2007A Bonds will be payable at the principal corporate trust office of the Trustee. See "THE SERIES 2007A BONDS - Book-Entry-Only System."

Certain Series 2007A Bonds are subject to mandatory sinking fund redemption and optional redemption prior to maturity as described herein. See "THE SERIES 2007A BONDS - Redemption Provisions." Investors should note that the information regarding optional redemption in the section captioned "THE SERIES 2007A BONDS - Redemption Provisions—Optional Redemption" has been supplemented as of January 22, 2007.

The scheduled payment of the principal of and the interest on the Series 2007A Bonds when due will be guaranteed under an insurance policy to be issued concurrently with the delivery of the Series 2007A Bonds by FINANCIAL SECURITY ASSURANCE INC. See "THE SERIES 2007A BONDS - Security and Sources of Payment - Bond Insurance" and **Appendix I** herein.



**See the inside cover page for maturities, principal amounts, interest rates and yields.**

The Series 2007A Bonds are offered when, as and if issued by the City and received by the Underwriters (as defined herein) and subject to prior sale, withdrawal or modification of the offer without notice and the approval of legality of the Series 2007A Bonds by Nixon Peabody LLP, New York, New York, and the Hardwick Law Firm, LLC, Kansas City, Missouri, Co-Bond Counsel, and certain other conditions. Certain legal matters will be passed upon for the City by the office of the City Counselor and by Armstrong Teasdale LLP, St. Louis, Missouri, Special Counsel, and for the Underwriters by Orrick, Herrington & Sutcliffe LLP, Washington, D.C., and Saulsberry & Associates, LLC, St. Louis, Missouri, Co-Underwriters' Counsel. It is expected that the Series 2007A Bonds in book-entry-only form will be available for delivery through the facilities of DTC in New York, New York, on or about January 23, 2007.

**Lehman Brothers**

**JPMorgan**

**First Albany Capital Inc.**

**Jackson Securities**

**Morgan Stanley**

*This cover page contains certain information for quick reference only. It is not a summary of this Official Statement. Investors must read the entire Official Statement to obtain information essential to making of an informed investment decision, including, but not limited to, matters described in "CERTAIN INVESTMENT CONSIDERATIONS."*

The date of this Official Statement is January 10, 2007, as supplemented on January 22, 2007.

## MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES AND YIELDS

### SERIES 2007A BONDS

\$206,595,000 Serial Bonds

<b><u>Maturity</u></b>				
<b><u>Date</u></b>	<b><u>Principal Amount</u></b>	<b><u>Interest Rate</u></b>	<b><u>Yield</u></b>	<b><u>CUSIP Numbers</u></b> <sup>1</sup>
7/1/2012	\$ 8,670,000	5.00%	3.78%	791638XD6
7/1/2013	13,425,000	5.00%	3.81%	791638XE4
7/1/2014	15,675,000	5.00%	3.83%	791638XF1
7/1/2015	3,725,000	5.00%	3.85%	791638XG9
7/1/2016	2,585,000	5.00%	3.89%	791638XH7
7/1/2017	2,645,000	5.00%	3.94%	791638XJ3
7/1/2018	2,410,000	5.00%	3.98%*	791638XK0
7/1/2019	2,530,000	4.00%	4.14%	791638XL8
7/1/2020	18,625,000	5.00%	4.06%*	791638XM6
7/1/2021	22,150,000	5.00%	4.09%*	791638XN4
7/1/2022	24,335,000	5.00%	4.11%*	791638XP9
7/1/2023	20,865,000	5.00%	4.13%*	791638XQ7
7/1/2024	11,915,000	5.00%	4.15%*	791638XR5
7/1/2024	10,000,000	4.25%	4.39%	791638XS3
7/1/2025	12,935,000	5.00%	4.17%*	791638XT1
7/1/2025	10,000,000	5.25%	4.11%	791638XU8
7/1/2026	24,105,000	5.25%	4.13%	791638XV6

\$24,680,000 4.25% Term Bond Due July 1, 2032 Yield 4.49% CUSIP: 791638XW4

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\* Priced to the stated yield to the earliest optional redemption date of July 1, 2017 at a redemption price of 100%.

<sup>1</sup> CUSIP numbers shown above have been assigned by an organization not affiliated with the City. The City was not responsible for the selection of CUSIP numbers nor does it make any representation as to the correctness of such numbers on the Series 2007A Bonds or as indicated herein.

**THE CITY OF ST. LOUIS  
ELECTED OFFICIALS**

Francis G. Slay, Mayor  
Darlene Green, Comptroller  
James F. Shrewsbury, President of the Board of Aldermen  
Larry C. Williams, Treasurer

**BOARD OF ALDERMEN**

Charles Quincy Troupe - Ward 1	Matt Villa - Ward 11	Craig Schmid - Ward 20
Dionne Flowers - Ward 2	Fred Heitert - Ward 12	Bennice Jones King - Ward 21
Freeman Bosley, Sr.-Ward 3	Alfred J. Wessels, Jr. - Ward 13	Jeffery Boyd - Ward 22
O. L. Shelton - Ward 4	Stephen Gregali - Ward 14	Kathleen Hanarahan - Ward 23
April Ford-Griffin - Ward 5	Jennifer Florida - Ward 15	William Waterhouse - Ward 24
Lewis E. Reed - Ward 6	Donna Baringer - Ward 16	Dorothy Kirner - Ward 25
Phyllis Young - Ward 7	Joseph D. Roddy -Ward 17	Frank Williamson - Ward 26
Stephen J. Conway - Ward 8	Terry Kennedy - Ward 18	Gregory J. Carter - Ward 27
Kenneth Ortmann - Ward 9	Michael McMillan - Ward 19	Lyda Krewson - Ward 28
Joseph Vollmer - Ward 10		

**OTHER CITY OFFICIALS**

Ivy Neyland-Pinkston, Deputy Comptroller for Finance and Development  
Kenneth L. Below, Assistant Airport Director of Finance  
Elaine Harris Spearman, Legal Advisor to the Comptroller  
Candice Gordon, Accounting Executive  
Patricia A. Hageman, City Counselor  
Stephen J. Kovac, Deputy City Counselor  
Joseph R. Niemann, Airport Counsel

**CITY AIRPORT COMMISSION**

	Kevin C. Dolliole, Director and Chairman	
William J. Esterline	Bob McNutt	Richard A. Sauget
Darlene Green	Anisha Morrell-Charles	Frank D. Schembre
Richard E. Hrabko	Thomas R. Nash	James F. Shrewsbury
John Krekeler	Kathy Osborn	Joseph A. Vaccaro
Benjamin A. Lipman	John Saracino	Phyllis Young
Lewis L. McKinney, Jr.		

**BOARD OF ESTIMATE AND APPORTIONMENT**

Francis G. Slay, Mayor  
Darlene Green, Comptroller  
James F. Shrewsbury, President of the Board of Aldermen

**CO-FINANCIAL ADVISORS**

Siebert Brandford Shank & Co., LLC	Gardner, Underwood & Bacon-Illinois, LLC
St. Louis, Missouri	Chicago, Illinois

**INVESTMENT ADVISOR**

Columbia Capital Management LLC  
Mission, Kansas

**AIRPORT CONSULTANT**

Unison-Maximus, Inc.  
Chicago, Illinois

This Official Statement is provided in connection with the initial offering and sale of the Series 2007A Bonds referred to herein and may not be reproduced or used, in whole or in part, for any other purpose. The information contained in this Official Statement has been derived from information provided by the City, the Airport, the Bond Insurer (all as hereinafter defined) and other sources which are believed to be reliable. The Underwriters have provided the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information in this Official Statement in accordance with, and as a part of, their respective responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

No dealer, broker, salesman or other person has been authorized by the City, the Airport, the Bond Insurer or the Underwriters to give any information or to make any representations other than those contained in this Official Statement, and, if given or made, such other information or representations should not be relied upon as having been authorized by any of the foregoing. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the Series 2007A Bonds, by any person in any state in which it is unlawful for such person to make such offer, solicitation or sale.

The information and expressions of opinion herein speak as of their date unless otherwise noted and are subject to change without notice. Neither the delivery of this Official Statement nor any sale made hereunder shall under any circumstances create any implication that there has been no change in the affairs of the City, the Airport or the Bond Insurer since the date hereof (or since the date of any information included herein that is dated other than the date hereof).

The Series 2007A Bonds have not been registered with the United States Securities and Exchange Commission (the "SEC") under the Securities Act of 1933, as amended (the "Securities Act") in reliance upon the exemption contained in Section 3(a)(2) of such act. The Indenture has not been qualified under the Trust Indenture Act of 1939, as amended, in reliance upon an exemption contained in such act. The registration or qualification of the Series 2007A Bonds in accordance with applicable provisions of securities laws of any states in which the Series 2007A Bonds have been registered or qualified and the exemption from registration or qualification in other states cannot be regarded as a recommendation thereof. Neither these states nor any of their agencies have passed upon the merits of the Series 2007A Bonds or the accuracy or completeness of this Official Statement. Any representation to the contrary may be a criminal offense.

Other than with respect to information concerning the Bond Insurer contained in the "THE SERIES 2007A BONDS – Security and Sources of Payment – Bond Insurance" and APPENDIX I – "Form of Municipal Bond Insurance Policy" and APPENDIX J – "Form of the Municipal Bond Debt Service Reserve Insurance Policy", none of the information in this Official Statement has been supplied or verified by the Bond Insurer and the Bond Insurer makes no representation or warranty, express or implied, as to (i) the accuracy or completeness of such information, (ii) the validity of the Series 2007A Bonds, or (iii) the tax-exempt status of the interest on the Series 2007A Bonds.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVERALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICE OF THE SERIES 2007A BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

#### CAUTIONARY STATEMENTS REGARDING FORWARD-LOOKING STATEMENTS IN THIS OFFICIAL STATEMENT

Certain statements included in or incorporated by reference in this Official Statement that are not purely historical are "forward-looking statements" within the meaning of the United States Private Securities Litigation Reform Act of 1995, Section 21E of the United States Securities Exchange Act of 1934, as amended (the "Exchange Act"), and Section 27A of the Securities Act and reflect the City's current expectations, hopes, intentions, or strategies regarding the future. Such statements may be identifiable by the terminology used such as "plan," "expect," "estimate," "budget," "intend" or other similar words.

The achievement of certain results or other expectations contained in such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements described to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Included in such risks and uncertainties are (i) those relating to the possible invalidity of the underlying assumptions and estimates, (ii) possible changes or developments in social, economic, business, industry, market, legal and regulatory circumstances, and (iii) conditions and actions taken or omitted to be taken by third parties, including customers, suppliers, business partners and competitors, and legislative, judicial and other governmental authorities and officials. Assumptions related to the foregoing involve judgments with respect to, among other things, future economic, competitive, and market conditions and future business decisions, all of which are difficult or impossible to predict accurately. For these reasons, there can be no assurance that the forward-looking statements included in this Official Statement will prove to be accurate.

Undue reliance should not be placed on forward-looking statements. All forward-looking statements included in this Official Statement are based on information available to the City on the date hereof, and the City assumes no obligation to update any such forward-looking statements if or when its expectations or events, conditions or circumstances on which such statements are based occur or fail to occur, other than as indicated under the caption "Continuing Disclosure."

## TABLE OF CONTENTS

	<u>Page</u>
INTRODUCTION.....	1
Use of Proceeds .....	2
Security and Sources of Payment .....	2
Bond Insurance.....	2
Debt Service Reserve Insurance Policy .....	3
Additional Bonds and Refunding Bonds.....	3
Redemption .....	4
Certain Investment Considerations.....	4
Changes from the Preliminary Official Statement.....	4
Miscellaneous.....	4
THE SERIES 2007A BONDS .....	5
General.....	5
Book-Entry-Only System.....	5
Redemption Provisions .....	6
Optional Redemption .....	6
Mandatory Sinking Fund Redemption .....	6
Method of Selecting Series 2007A Bonds for Redemption.....	6
Notice of Redemption .....	7
Security and Sources of Payment .....	7
General .....	7
Revenues.....	7
Bond Insurance.....	8
Rate Covenant.....	9
Debt Service Reserve Account .....	10
Debt Service Reserve Policy.....	10
Debt Service Stabilization Fund .....	11
Outstanding Bonds, Additional Bonds and Refunding Bonds .....	12
Outstanding Bonds .....	12
Additional Bonds .....	12
Refunding Bonds.....	13
Subordinated Indebtedness and Special Facilities Indebtedness .....	13
Matters Relating to Enforceability.....	14
Matters Relating to Security for the Series 2007A Bonds .....	15
Acceleration .....	15
Remedies .....	15
PLAN OF FINANCE .....	16
General.....	16
Plan of Refunding.....	16
Series 2007B Bonds.....	16
SOURCES AND USES OF FUNDS .....	17
DEBT SERVICE REQUIREMENTS .....	18
THE CITY OF ST. LOUIS .....	19
General.....	19

Government .....	19
THE AIRPORT .....	20
General .....	20
Service Area .....	20
Existing Airport Facilities .....	20
Terminal Facilities .....	21
Public Parking .....	21
Other Facilities .....	21
CERTAIN AGREEMENTS FOR USE OF THE AIRPORT'S FACILITIES .....	22
Airport Use, Operating and Cargo Agreements .....	22
Use Agreements .....	22
Operating Agreements .....	23
Cargo Addenda .....	23
Landing Fee Rate Mitigation .....	24
Federal Policy on Air Carrier Rates and Charges .....	24
Airport Maintenance .....	24
Concession Agreements .....	25
AIRPORT OPERATIONS .....	26
Air Carrier Service .....	26
Airline Market Shares .....	26
Passenger Enplanements .....	29
Risk Management .....	30
AIRPORT MANAGEMENT .....	30
Introduction .....	30
Airport Staff .....	31
Airport Employees .....	31
CAPITAL IMPROVEMENT PROGRAMS AT THE AIRPORT .....	32
General .....	32
The Airport Development Program .....	32
The 5-year CIP .....	32
Part 150 Noise Mitigation Program .....	33
AIRPORT FINANCIAL INFORMATION .....	35
Revenues and Expenses .....	35
Management Discussion of Financial Information .....	36
FACTORS AFFECTING THE AIRPORT AND THE AIR CARRIER INDUSTRY .....	37
General .....	37
National and International Economic and Political Conditions .....	37
Aviation Security Requirements .....	37
Revenues from Air Carriers .....	38
Air Carrier Service and Routes .....	38
Low-cost Carriers and Low-fare Divisions of Legacy Carriers .....	39
Aviation Fuel Costs .....	39
FINANCIAL CONDITION OF CERTAIN AIRLINES SERVING THE AIRPORT .....	39

General .....	39
AMR .....	39
Southwest .....	40
Certain Other Airlines .....	40
Additional Information .....	41
CERTAIN INVESTMENT CONSIDERATIONS .....	41
Airline Activity at the Airport .....	41
Airline Industry Factors .....	42
Certain Factors Affecting the Airport .....	42
Regulations and Restrictions Affecting the Airport .....	42
Restrictions as a Result of the Events of September 11, 2001 .....	43
Federal Funding Regulations .....	43
Expiration and Possible Termination of Use Agreements .....	43
Effect of Bankruptcy on the Use Agreements .....	43
Limitations on Bondholders' Remedies .....	44
Costs of Capital Improvement Programs and Schedule .....	44
Forward Looking Statements .....	44
REVIEW OF THE AIRPORT CONSULTANT .....	45
Projected Airport Revenues .....	45
TAX MATTERS .....	49
Federal Income Tax Consequences of Owning Series 2007A Bonds .....	49
Original Issue Premium .....	49
Original Issue Discount .....	49
State Taxes .....	50
Other Federal Tax Matters .....	50
Changes in Federal Tax Law and Post Issuance Events .....	50
LITIGATION .....	51
UNDERWRITING .....	52
INDEPENDENT PUBLIC ACCOUNTANTS .....	52
CO-FINANCIAL ADVISORS .....	53
INVESTMENT ADVISOR .....	53
VERIFICATION AGENT .....	53
AIRPORT CONSULTANT .....	53
LEGAL MATTERS .....	53
CONTINUING DISCLOSURE .....	54
RATINGS .....	54
MISCELLANEOUS .....	55

APPENDIX A -	Review of the Airport Consultant
APPENDIX B -	Audited Financial Statements of the Airport
APPENDIX C -	Summary of Certain Provisions of the Indenture
APPENDIX D -	Summary of Certain Provisions of the Use Agreements and the Operating Agreements
APPENDIX E -	DTC Information
APPENDIX F -	Form of Opinion of Co-Bond Counsel
APPENDIX G -	Summary of the Continuing Disclosure Agreement
APPENDIX H -	The PFC Program
APPENDIX I -	Form of the Municipal Bond Insurance Policy
APPENDIX J -	Form of the Municipal Bond Debt Service Reserve Insurance Policy



## OFFICIAL STATEMENT

Relating to

**\$231,275,000**

**The City of St. Louis, Missouri  
Airport Revenue Refunding Bonds  
Series 2007A (Non-AMT)  
(Lambert-St. Louis International Airport)**

### INTRODUCTION

*This introduction is only a brief description and summary of certain information contained in this Official Statement and is qualified in its entirety by reference to the more complete and detailed information contained in the entire Official Statement, including the cover page, inside cover page and appendices (collectively, the "Official Statement") and the documents summarized or described herein. Unless otherwise defined herein, certain capitalized words and terms used in this Official Statement have the meanings given to them in APPENDIX C - "Summary of Certain Provisions of the Indenture."*

This Official Statement is furnished in connection with the offering by The City of St. Louis, Missouri (the "City") of its \$231,275,000 aggregate principal amount of Airport Revenue Refunding Bonds, Series 2007A (Non-AMT) (Lambert-St. Louis International Airport) (the "Series 2007A Bonds"). **Investors must read the entire Official Statement, including the cover page, inside cover page and appendices, to obtain information essential to making an informed investment decision.**

The Series 2007A Bonds are issued under authority of the constitution and laws of the State of Missouri, including Article VI, Section 27(a) and Section 28 of the Missouri Constitution, as amended, Section 108.140 of the Revised Statutes of Missouri (2000), as amended, and Ordinance No. 67317, adopted by the Board of Aldermen of the City on November 17, 2006, signed by the Mayor on November 27, 2006, and effective on December 27, 2006.<sup>1</sup> The Series 2007A Bonds are issued pursuant to the Amended and Restated Indenture of Trust, dated as of October 15, 1984, as amended and restated as of September 10, 1997, as amended and supplemented, including by the Fourteenth Supplemental Indenture of Trust, dated as of January 1, 2007 (collectively, the "Indenture"), between the City and UMB Bank, N.A., as Trustee (the "Trustee"). For a summary of the Indenture, see **APPENDIX C - "Summary of Certain Provisions of the Indenture."**

The Indenture authorizes the issuance of bonds (the "Bonds") subject to requirements specified in the Indenture. Under the Indenture, the Series 2007A Bonds constitute an issue of Refunding Bonds, as defined in the Indenture. Following the issuance of the Series 2007A Bonds, there will be ten series of Bonds outstanding under the Indenture in the aggregate principal amount of \$845,355,000. Such outstanding Bonds, together with any Additional Bonds and Refunding Bonds hereafter issued and outstanding are referred to herein as the "Outstanding Bonds." See **"THE SERIES 2007A BONDS - Security and Sources of Payment - Outstanding Bonds, Additional Bonds and Refunding Bonds."**

The City is a constitutional charter city and political subdivision of the State of Missouri. The Lambert-St. Louis International Airport (the "Airport") is owned by the City and operated by the Airport Authority of the City (the "Airport Authority"). The Airport Authority was created by ordinance of the

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<sup>1</sup> The Ordinance authorizing the Series 2007A Bonds refers to them as the Series 2006 Bonds, because, at the time the Ordinance was prepared, the Series 2007A Bonds were expected to be issued in December 2006.

Board of Aldermen of the City and consists of the City Airport Commission (the "Commission"), the Airport's Chief Executive Officer (the "Director of Airports") and other managers and personnel required to operate the Airport. The Commission is responsible for the planning, development, management and operation of the Airport. See **"AIRPORT MANAGEMENT - Introduction."**

### **Use of Proceeds**

The proceeds of the Series 2007A Bonds, together with other available funds, will be used to: (i) refund a portion (hereinafter described) of the City's Outstanding Bonds for the purpose of achieving interest cost savings; (ii) fund the reserve requirement for the Series 2007A Bonds; and (iii) pay costs of issuing the Series 2007A Bonds.

For further information regarding the use of proceeds of, and the plan of finance for, the Series 2007A Bonds, see **"PLAN OF FINANCE."**

### **Security and Sources of Payment**

The Series 2007A Bonds are limited obligations of the City payable on a parity with the Outstanding Bonds solely from the Revenues derived from the operation of the Airport and certain other funds pledged under the Indenture, subject to the application thereof in accordance with the Indenture, including the Debt Service Stabilization Fund and the Debt Service Reserve Fund, all as more fully described in **"THE SERIES 2007A BONDS - Security and Sources of Payment."** Also see **"Bond Insurance"** below. The principal sources of Revenues are the rates and charges generated under agreements between the City and the airlines serving the Airport as well as payments under concession contracts at the Airport. See **"CERTAIN AGREEMENTS FOR USE OF THE AIRPORT'S FACILITIES."**

**The Series 2007A Bonds do not constitute indebtedness of the City within the meaning of any constitutional or statutory limitation or provision, and the taxing power of the City is not pledged to the payment of the Series 2007A Bonds, either as to principal or interest.**

The Series 2007A Bonds will be issued on a parity with the Outstanding Bonds. In addition, the City may issue from time to time subordinate debt, including subordinate commercial paper notes, which are currently authorized in a maximum principal amount outstanding at any time of not to exceed \$125,000,000, of which \$1,000,000 is currently outstanding. See **"THE SERIES 2007A BONDS – Security and Sources of Payment – Subordinated Indebtedness and Special Facilities Indebtedness."**

### **Bond Insurance**

Concurrently with the issuance of the Series 2007A Bonds, Financial Security Assurance Inc. (the "Bond Insurer" or "Financial Security") will issue its Municipal Bond Insurance Policy for the Series 2007A Bonds (the "Bond Insurance Policy"). The Bond Insurance Policy guarantees the scheduled payment of principal of and interest on the Series 2007A Bonds when due as set forth in the form of the Bond Insurance Policy included as **APPENDIX I** to this Official Statement. See **"THE SERIES 2007A BONDS – Security and Sources of Payment – Bond Insurance"** and **APPENDIX I – "Form of the Municipal Bond Insurance Policy."**

## **Debt Service Reserve Insurance Policy**

Concurrently with the issuance of the Series 2007A Bonds, Financial Security also will issue its Municipal Bond Debt Service Reserve Insurance Policy for the Series 2007A Bonds (the "Reserve Policy") for the purpose of meeting a portion of the reserve requirement for the Series 2007A Bonds. The Reserve Policy unconditionally guarantees the payment of that portion of principal of and interest on the Series 2007A Bonds that has become due for payment, but is unpaid by reason of nonpayment by the City, provided that the aggregate amount paid under the Reserve Policy cannot exceed the maximum amount set forth in the Reserve Policy included as **APPENDIX J** to this Official Statement. See "**THE SERIES 2007A BONDS – Security and Sources of Payment – Debt Service Reserve Account**" and **APPENDIX J – "Form of the Municipal Bond Debt Service Reserve Insurance Policy."**

## **Additional Bonds and Refunding Bonds**

Subject to certain terms and conditions, the City may issue Additional Bonds from time to time to finance capital improvements at the Airport. The City may issue Refunding Bonds for the purpose of refunding principal and/or interest components of any Outstanding Bonds, any Subordinated Indebtedness or any other obligations issued to finance improvements at the Airport. Additional Bonds and Refunding Bonds will be equally and ratably secured on a parity with the Series 2007A Bonds and other Outstanding Bonds.

The City may issue Additional Bonds if (i) sufficient bonding authority remains pursuant to the Voter Approval (as defined below) and (ii) the requirements for the issuance of Additional Bonds under the Indenture (the "Additional Bonds Test") are met. The City may issue Refunding Bonds if (i) the Aggregate Debt Service in each Airport Fiscal Year<sup>2</sup> after the refunding is no greater than the Aggregate Debt Service in each Airport Fiscal Year prior to the refunding or (ii) such Refunding Bonds satisfy certain portions of the Additional Bonds Test. See "**THE SERIES 2007A BONDS - Security and Sources of Payment - Additional Bonds.**"

On November 5, 1991, and April 8, 2003, the City voters authorized the City to issue up to \$3.5 billion of bonds (collectively, the "Voter Approval") to finance capital projects at the Airport. To date, approximately \$924.2 million of Bonds have been issued pursuant to the Voter Approval. Under state law and the City Charter, Refunding Bonds do not require Voter Approval.

Simultaneously with the sale of the Series 2007A Bonds, the City entered into a forward delivery contract for the purchase and sale of \$104,735,000 of its Airport Revenue Refunding Bonds, Series 2007B (the "Series 2007B Bonds"), the proceeds of which will be used to currently refund a portion of the outstanding Airport Revenue Bonds, Series 1997B (the "Refunded Series 1997B Bonds"). The City currently expects that the Series 2007B Bonds will be issued on or about April 3, 2007.<sup>3</sup>

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<sup>2</sup> The City and the Airport have a fiscal year ending June 30. Unless otherwise indicated, references to a "Fiscal Year" or "FY" herein mean a fiscal year of the City and the Airport ending June 30, and "CY" means a calendar year.

<sup>3</sup> The Ordinance authorizing the Series 2007B Bonds refers to them as the Series 2007 Bonds, because, at the time the Ordinance was prepared, the Series 2007A Bonds were expected to be issued in December 2006, and only the Series 2007B Bonds were expected to be issued in 2007.

## **Redemption**

Certain Series 2007A Bonds are subject to mandatory sinking fund redemption and will be subject to optional redemption prior to maturity as described under "**THE SERIES 2007A BONDS - Redemption Provisions.**"

## **Certain Investment Considerations**

The Series 2007A Bonds may not be suitable for all investors. Prospective purchasers of the Series 2007A Bonds should give careful consideration to the information set forth in this Official Statement including, but not limited to, the matters discussed or referred to under "**CERTAIN INVESTMENT CONSIDERATIONS.**" These considerations include, among others, the following: (1) events adversely affecting the air transportation system and the Airport; (2) the possible termination or expiration of the Use Agreements and the Operating Agreements (see "**CERTAIN AGREEMENTS FOR USE OF THE AIRPORT'S FACILITIES**") governing the use of the Airport by certain Signatory Airlines and the rentals, fees and charges required to be paid for such use; (3) the possible effect of an airline bankruptcy on the Use Agreements; and (4) the financial health of the airline industry and certain airlines serving the Airport. See also "**FACTORS AFFECTING THE AIR CARRIER INDUSTRY,**" for a more comprehensive discussion of certain investment considerations.

## **Changes from the Preliminary Official Statement**

This Official Statement includes certain information that was not available for inclusion in the Preliminary Official Statement dated December 5, 2006, including information relating to the Bond Insurance Policy, the Reserve Policy and the Bond Insurer, as well as the amount, maturities, interest rates, yields and other terms relating to the Series 2007A Bonds. Purchasers of the Series 2007A Bonds should read this Official Statement in its entirety.

## **Miscellaneous**

This Official Statement contains brief descriptions of, among other things, the Indenture, the Series 2007A Bonds, the City, the Airport, the Use Agreements, the Operating Agreements, the Continuing Disclosure Agreement, the audited financial statements of the Airport, the Airport's capital improvement programs, the Airport Development Program, the Bond Insurance Policy and the Reserve Policy. Such descriptions do not purport to be comprehensive or definitive. All references in this Official Statement to any documents are qualified in their entirety by reference to such documents, and references to the Series 2007A Bonds are qualified in their entirety by reference to the form of the Series 2007A Bonds included in the Fourteenth Supplemental Indenture. Upon the issuance of the Series 2007A Bonds, the Indenture, the Continuing Disclosure Agreement, the Bond Insurance Policy and the Reserve Policy will be available for inspection at the offices of the Trustee. All other documents referenced above are attached as appendices or available for inspection at the offices of the Airport.

Certain financial statements of the City are included as **APPENDIX B**. Definitions and a summary of certain provisions of the Indenture are included as **APPENDIX C**, and all capitalized terms used in this Official Statement and not otherwise defined in the Official Statement shall have the meanings set forth in **APPENDIX C** or, with respect to terms defined under the Use Agreements and the Operating Agreements, in **APPENDIX D**. A summary of certain provisions of the Use Agreements and the Operating Agreements is included as **APPENDIX D**. A description of the book-entry-only system maintained by DTC is set forth in **APPENDIX E**. The substantially final text of the opinion to

be delivered by Co-Bond Counsel, Nixon Peabody LLP, New York, New York, and the Hardwick Law Firm, LLC, Kansas City, Missouri is included as **APPENDIX F**. The City will execute a Continuing Disclosure Agreement (the "Disclosure Agreement") with UMB Bank, N.A., a summary of which is attached as **APPENDIX G**, to assist the Underwriters in complying with the provisions of Rule 15c2-12 (the "Rule"), promulgated by the SEC under the Exchange Act, by providing annual financial and operating data and material event notices required by the Rule. See "**CONTINUING DISCLOSURE**" and **APPENDIX G - "Summary of Continuing Disclosure Agreement."** A description of the PFC Program, as defined herein, is included as **APPENDIX H**. A form of the Bond Insurance Policy is included as **APPENDIX I** and a form of the Reserve Policy is included as **APPENDIX J**.

The information in this Official Statement is subject to change without notice, and neither the delivery of this Official Statement nor any sale made pursuant hereto shall under any circumstances, create an implication that there has been no change in the affairs of the City, the Airport or the Bond Insurer since the date hereof. This Official Statement is not to be construed as a contract or agreement between the City or the Underwriters and purchasers or owners of any of the Series 2007A Bonds.

## **THE SERIES 2007A BONDS**

The Series 2007A Bonds are being issued under the Indenture. Reference is hereby made to the Indenture in its entirety for the detailed provisions pertaining to the Series 2007A Bonds.

### **General**

The Series 2007A Bonds will be dated their date of original delivery and will mature and bear interest as set forth on the inside cover page of this Official Statement. The Series 2007A Bonds are issued as fully registered bonds in denominations of \$5,000 or integral multiples thereof.

The principal of and redemption premium, if any, on the Series 2007A Bonds will be payable at maturity or upon earlier redemption to the persons in whose name such Series 2007A Bonds are registered upon presentation and surrender of such Series 2007A Bonds at the principal corporate trust office of the Trustee in St. Louis, Missouri. Interest on the Series 2007A Bonds is payable semiannually on January 1 and July 1 of each year, commencing July 1, 2007. Registered owners of Series 2007A Bonds of a principal amount of at least \$1,000,000 may receive payments of interest by electronic transfer upon written request from the registered owner to the Trustee providing relevant instructions not later than five days prior to the Record Date for such interest payment date.

### **Book-Entry-Only System**

The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the Series 2007A Bonds. The Series 2007A Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee). One fully-registered Bond certificate will be issued for each maturity of the Series 2007A Bonds in the aggregate principal amount of such maturity, and will be deposited with DTC. For additional information regarding DTC and DTC's book-entry-only system, see **APPENDIX E - "DTC Information."**

*In reading this Official Statement, it should be understood that while the Series 2007A Bonds are in book-entry-only form, references in other sections of this Official Statement to registered owners should be read to include the person for which the Participant acquires an interest in the Series 2007A Bonds, but (i) all rights of ownership must be exercised through DTC and its book-entry-only system, and (ii) except as described in **APPENDIX E**, notices that are to be given to registered owners under the Indenture shall be given only to DTC.*

## Redemption Provisions

The Series 2007A Bonds are subject to mandatory sinking fund redemption and optional redemption as described below.

### *Optional Redemption*

The Series 2007A Bonds maturing on July 1, 2018 through 2024, inclusive, the Series 2007A Bond maturing on July 1, 2025, in the principal amount of \$12,935,000 with the stated interest rate of 5.00%, and the Series 2007A Bond maturing on July 1, 2032, are subject to redemption prior to maturity in the sole discretion of the City from any source, in whole or in part at any time, as determined by the City (and within any maturity as selected by the Trustee in such equitable manner as it shall determine), on and after July 1, 2017, at the Redemption Price of 100% of the principal amount of the Series 2007A Bonds or portions thereof to be redeemed, together with accrued interest to the redemption date.

### *Mandatory Sinking Fund Redemption*

The Series 2007A Bonds maturing July 1, 2032, are subject to mandatory redemption prior to maturity, upon notice as provided in the Indenture, in part, as selected by lot by the Trustee in such manner as it shall deem fair and appropriate, at par, plus accrued interest to the date of redemption on July 1 of each of the years set forth below, in the principal amounts set forth below:

<u>July 1</u>	<u>Principal Amount</u>	<u>July 1</u>	<u>Principal Amount</u>
2027	\$3,700,000	2030	\$4,190,000
2028	3,855,000	2031	4,365,000
2029	4,015,000	2032*	4,555,000

\* Final Maturity

With respect to the mandatory sinking fund redemption of the Series 2007A Bonds maturing July 1, 2032, amounts accumulated in the Debt Service Account for such purpose may be applied prior to the 60th day preceding a sinking fund payment date to purchase Series 2007A Bonds. After the 60th day but on or prior to the 40th day preceding a sinking fund payment date, amounts on deposit in the Debt Service Account may be applied to purchase Series 2007A Bonds in an amount not exceeding that necessary to complete the retirement of the unsatisfied balance of the payment requirement for such sinking fund payment date. All such purchases of Series 2007A Bonds shall be at prices not exceeding the applicable sinking fund payment price plus accrued interest.

### *Method of Selecting Series 2007A Bonds for Redemption*

If less than all of the Series 2007A Bonds of like maturity shall be called for prior redemption, the particular Bonds or portions of Bonds to be redeemed shall be selected by lot by the Trustee in such manner as the Trustee in its discretion may deem fair and appropriate; provided, however, that the portion of any Bonds of a denomination of more than \$5,000 to be redeemed shall be in the principal amount of \$5,000 or any integral multiple thereof, and that, in selecting portions of such Bonds for redemption the Trustee shall treat each such Bond as representing that number of Bonds of \$5,000 denomination which is obtained by dividing the principal amount of such Bond to be redeemed in part by \$5,000.

### ***Notice of Redemption***

Notices of redemption will be mailed by the Trustee, postage prepaid, not less than 30 days prior to any redemption date, to the registered Owners of the Series 2007A Bonds that are to be redeemed. Each such notice will identify the Series 2007A Bonds to be redeemed (and, in the case of Series 2007A Bonds to be redeemed in part only, the principal amounts to be redeemed), will specify the redemption date and the redemption price, and will state that the Series 2007A Bonds to be redeemed will be payable at the principal corporate trust office of the Trustee. If, at the time of mailing of the notice of any optional redemption, there has not been deposited with the Trustee moneys sufficient to redeem all the Series 2007A Bonds called for redemption, the notice may state that it is conditional on the deposit of the redemption moneys with the Trustee not later than the opening of business on the redemption date. Such notice will be of no effect and the redemption price for such optional redemption will not be due and payable unless such moneys are so deposited.

Upon the sending of notice as provided in the Indenture and the deposit with the Trustee of legally available moneys sufficient to pay the principal of and interest accrued to the redemption date on the Series 2007A Bonds called for redemption, the Series 2007A Bonds or portions thereof thus called for redemption will cease to bear interest from and after the redemption date, will no longer be entitled to the benefits provided by the Indenture and will not be deemed to be Outstanding under the provisions of the Indenture.

### **Security and Sources of Payment**

#### ***General***

**The Series 2007A Bonds do not constitute an indebtedness of the City within the meaning of any constitutional or statutory limitation or provision, and the taxing power of the City is not pledged to the payment of the Series 2007A Bonds, either as to principal or interest.**

The Series 2007A Bonds are limited obligations of the City, payable solely from and secured, on a parity with the Outstanding Bonds, by a pledge of (i) the Revenues, subject to the prior application thereof for the payment of Operation and Maintenance Expenses in accordance with the Indenture, and (ii) the funds held or set aside under the Indenture. None of the properties of the Airport have been pledged or mortgaged to secure payment on the Bonds, including the Series 2007A Bonds.

The Series 2007A Bonds are being issued as, and are subject to the requirements applicable to, Refunding Bonds under the Indenture.

#### ***Revenues***

Under the Indenture, "Revenues" means collectively, the "GARB Revenues," the "Pledged PFC Revenues" (each defined below) and any other available moneys deposited in the Revenue Fund. The Indenture defines *Net Revenues* as Revenues less Operation and Maintenance Expenses.

*GARB Revenues.* The Indenture defines "GARB Revenues" as revenues collected by the City relating to, from or with respect to its possession, management, supervision, operation and control of the Airport, including all rates, charges, landing fees, rentals, use charges, concession revenues, revenues from the sale of services, supplies or other commodities, any investment income realized from the investment of amounts in the Revenue Fund, and any other amounts deposited into the Revenue Fund. GARB Revenues do not include: (a) any revenue or income from any Special Facilities, except ground rentals thereof or any payments made to the City in lieu of such ground rentals and the revenue or

income from Special Facilities which are not pledged to the payment of Special Facilities Indebtedness; (b) any moneys received as grants, appropriations or gifts from the United States of America, the State of Missouri or other sources, the use of which is limited by the grantor or donor to the planning or the construction of capital improvements, including land acquisition, for the Airport, except to the extent any such moneys shall be received as payment for the use of the Airport; (c) any Bond proceeds and other money (including investment earnings) credited to the Construction Fund for the financing of capital improvements to the Airport; (d) any interest earnings or other gain from investment of moneys or securities in any escrow or similar account pledged to the payment of any obligations therein specified in connection with the issuance of Refunding Bonds or the defeasance of any Series of Bonds in accordance with the Indenture; (e) any consideration received by the City upon transfer of the Airport pursuant to the Indenture; (f) interest income on, and any profit realized from, the investment of moneys in (i) the Construction Fund or any other construction fund funded from proceeds of bonds or (ii) the Debt Service Account or the Debt Service Reserve Account if and to the extent there is any deficiency therein; (g) any passenger facility charge or similar charge levied by or on behalf of the Airport against passengers or cargo, including any income or earnings thereon, unless and to the extent all or a portion thereof are designated as Revenues by the City in a Supplemental Indenture; (h) insurance proceeds which are not deemed to be GARB Revenues in accordance with generally accepted accounting principles (other than proceeds that provide for lost revenue to the Airport for business interruption or business loss); (i) the proceeds of any condemnation or eminent domain award; (j) the proceeds of any sale of land, buildings or equipment; (k) any money received by or for the account of the Airport from the levy of taxes upon any property in the City; and (l) amounts payable to the City under an Interest Rate Exchange Agreement unless and to the extent designated as GARB Revenues by the City in a Supplemental Indenture.

*Pledged PFC Revenues.* Under the Indenture, a limited portion of the revenues from the Passenger Facility Charges (the "PFCs" or the "PFC Revenues") has been pledged to the payment of Bonds in an amount that correlates to the PFC-Eligible Projects financed or refinanced with Bond proceeds. See **APPENDIX C – "Summary of Certain Provisions of the Indenture – Pledged PFC Revenues"** and **APPENDIX H - "The PFC Program"** attached hereto.

Amounts in the Revenue Fund are deposited, on a monthly basis, in specified accounts under the Indenture in the order set forth in the Indenture. For a summary of the application of Revenues under the Indenture, see **APPENDIX C - "Summary of Certain Provisions of the Indenture."**

The principal sources of Revenues are the rates and charges generated under agreements between the City and the airlines serving the Airport as well as payments under concession contracts at the Airport. See **"CERTAIN AGREEMENTS FOR USE OF THE AIRPORT'S FACILITIES."**

### ***Bond Insurance***

**The following information has been furnished by the Bond Insurer for use in this Official Statement. Reference is made to Appendix I for a specimen of the Bond Insurance Policy.**

#### **Bond Insurance Policy**

Concurrently with the issuance of the Series 2007A Bonds, the Bond Insurer will issue its Bond Insurance Policy for the Series 2007A Bonds. The Bond Insurance Policy guarantees the scheduled payment of principal of and interest on the Series 2007A Bonds when due as set forth in the form of the Bond Insurance Policy included as **APPENDIX I** to this Official Statement.

The Bond Insurance Policy is not covered by any insurance security or guaranty fund established under New York, California, Connecticut or Florida insurance law.



### Bond Insurer Information

Financial Security is a New York domiciled financial guaranty insurance company and a wholly owned subsidiary of Financial Security Assurance Holdings Ltd. ("Holdings"). Holdings is an indirect subsidiary of Dexia, S.A., a publicly held Belgian corporation, and of Dexia Credit Local, a direct wholly-owned subsidiary of Dexia, S.A. Dexia, S.A., through its bank subsidiaries, is primarily engaged in the business of public finance, banking and asset management in France, Belgium and other European countries. No shareholder of Holdings or Financial Security is liable for the obligations of Financial Security.

At September 30, 2006, Financial Security's combined policyholders' surplus and contingency reserves were approximately \$2,581,107,000 and its total net unearned premium reserve was approximately \$1,992,163,000 in accordance with statutory accounting principles. At September 30, 2006, Financial Security's consolidated shareholder's equity was approximately \$3,058,987,000 and its total net unearned premium reserve was approximately \$1,590,538,000 in accordance with generally accepted accounting principles.

The consolidated financial statements of Financial Security included in, or as exhibits to, the annual and quarterly reports filed after December 31, 2005, by Holdings with the Securities and Exchange Commission are hereby incorporated by reference into this Official Statement. All financial statements of Financial Security included in, or as exhibits to, documents filed by Holdings pursuant to Section 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934 after the date of this Official Statement and before the termination of the offering of the Series 2007A Bonds shall be deemed incorporated by reference into this Official Statement. Copies of materials incorporated by reference will be provided upon request to Financial Security Assurance Inc.: 31 West 52nd Street, New York, New York 10019, Attention: Communications Department (telephone (212) 826-0100).

The Bond Insurance Policy does not protect investors against changes in market value of the Series 2007A Bonds, which market value may be impaired as a result of changes in prevailing interest rates, changes in applicable ratings or other causes. Financial Security makes no representation regarding the Series 2007A Bonds or the advisability of investing in the Series 2007A Bonds. Financial Security makes no representation regarding the Official Statement, nor has it participated in the preparation thereof, except that Financial Security has provided to the City the information presented under this caption for inclusion in the Official Statement.

**Neither the City nor the Underwriters takes any responsibility for the accuracy or completeness of any information provided by or available from the Bond Insurer or its affiliates.**

### ***Rate Covenant***

Under the Indenture, the City has covenanted that it will at all times while any Bonds remain outstanding, establish, fix, prescribe and collect rates, fees, rentals and other charges for the use of the Airport as will be reasonably anticipated to provide in each Fiscal Year an amount so that Revenues will be sufficient to (i) pay Aggregate Debt Service for such Fiscal Year, (ii) provide funds necessary to make the required deposits in and maintain the several funds and accounts established under the Indenture, and (iii) pay or discharge all indebtedness, charges and liens payable out of the Revenues under the Indenture. For further discussion, see "**CERTAIN AGREEMENTS FOR USE OF THE AIRPORT'S FACILITIES.**"

### ***Debt Service Reserve Account***

The Indenture authorizes the establishment of the 2006 Debt Service Reserve Sub-Account of the Airport Debt Service Reserve Account, which is to be held by the Trustee, is to be applied solely for the purposes specified in the Indenture and is pledged to secure the payment of the accrued Aggregate Debt Service on the Series 2007A Bonds. All of the sub-accounts within the Debt Service Reserve Account are held on a parity basis for the equal and ratable benefit of the Holders of all of the Outstanding Bonds. The Indenture requires that the Debt Service Reserve Account be maintained, as of any date of calculation for the then-Outstanding Bonds, unless otherwise provided in a Supplemental Indenture for a particular Series of Bonds, at an amount which equals the least of: (i) 10% of the proceeds of such series of Bonds; (ii) 125% of the average annual debt service on such series of Bonds; or (iii) the maximum annual debt service on such series of Bonds. Deposits into the Debt Service Reserve Account may be satisfied by a deposit of cash or a letter of credit, revolving credit agreement, standby purchase agreement, surety bond, insurance policy or similar obligation, arrangement or instrument issued by a bank, insurance company or other financial institution pursuant to the requirements of the Indenture.

Pursuant to the Fourteenth Supplemental Indenture, the Debt Service Reserve Requirement with respect to the Series 2007A Bonds will be \$19,813,664, which is to be satisfied by the deposit of \$4,604,681 of excess funds from the debt service reserve account for the Airport Revenue Bonds, Series 2002A (Capital Improvement Program) (Non-AMT) (the "Series 2002A Bonds") and the purchase of the Reserve Policy.

Moneys in the Debt Service Reserve Account are to be withdrawn and deposited in the Debt Service Account to the extent of a deficiency whenever the amount in the Debt Service Account each month is less than the amount of the accrued Aggregate Debt Service after all required transfers pursuant to the Indenture and any transfer from the Debt Service Stabilization Fund. In the event amounts in the Debt Service Reserve Account shall be less than the Debt Service Reserve Requirement, the Indenture requires that the Debt Service Reserve Account be restored to its requirement from amounts held in the Renewal and Replacement Fund, the Contingency Fund or the Development Fund and, to the extent amounts held in such funds shall be insufficient, from the first available Revenues after required deposits into the Operation and Maintenance Fund and the Debt Service Fund pursuant to the Indenture. Moneys in the Debt Service Reserve Account in excess of the requirement may be withdrawn and applied in accordance with the Indenture. See **APPENDIX C - "Summary of Certain Provisions of the Indenture."**

### ***Debt Service Reserve Policy***

Financial Security has issued its commitment to issue the Reserve Policy concurrent with the issuance of the Series 2007A Bonds. The Reserve Policy will provide that, upon notice from the Trustee to Financial Security to the effect that insufficient amounts are on deposit in the Debt Service Reserve Account to pay the principal of (at maturity or pursuant to mandatory redemption requirements) and interest on the Series 2007A Bonds, Financial Security will promptly deposit with the Trustee an amount sufficient to pay the principal of and interest on the Series 2007A Bonds or the available amount of the Reserve Policy, whichever is less. Financial Security will make payments to the Trustee on the later of the Business Day on which the principal of and interest on the Series 2007A Bonds becomes due for payment or the Business Day next following the Business Day on which Financial Security shall have received a notice of nonpayment from the Trustee.

The amount available under the Reserve Policy for payment shall not exceed the Reserve Policy limit. The amount available at any particular time to be paid to the Trustee under the terms of the Reserve Policy shall be automatically reduced by any payment under the Reserve Policy. After such payment, however, the amount available under the Reserve Policy shall be reinstated in full or in part, but only up to the Reserve Policy limit, to the extent of the reimbursement of such payment to Financial Security by or on behalf of the City.

The Reserve Policy will be issued in the face amount of \$15,208,983, which, together with a deposit of excess funds from the debt service reserve account of the Series 2002A Bonds of \$4,604,681, will equal the Debt Service Reserve Requirement for the Series 2007A Bonds, and the premium therefor will be fully paid by the City at the time of delivery of the Series 2007A Bonds. Reference is made to **APPENDIX J** for a specimen of the Reserve Policy.

#### ***Debt Service Stabilization Fund***

After making all required deposits to or for the Operation and Maintenance Fund, the Debt Service Account, the Debt Service Reserve Account, the Arbitrage Rebate Fund, any required payments with regard to Subordinated Indebtedness and the Renewal and Replacement Fund, and certain required transfers to the City, the City will deposit the remaining Revenues in the Revenue Fund (i) into the Debt Service Stabilization Fund and the ADF (or the PFC Account to the extent such Revenues are PFC Revenues) in increments, in Fiscal Years 2007 through 2011, up to specified amounts and (ii) in each Fiscal Year thereafter, to the Debt Service Stabilization Fund in an amount sufficient to cause the amount on deposit therein to equal the Debt Service Stabilization Fund Requirement. The Debt Service Stabilization Fund Requirement is an amount equal to 35 percent of the maximum annual Debt Service on the Bonds due in the then-current or any future Airport Fiscal Year, subject to change as described below. After such deposits, any remaining Revenues will be deposited in the ADF, except that unused Pledged PFC Revenues will be deposited in the PFC Account.

Amounts in the Debt Service Stabilization Fund may be withdrawn and used for (1) monthly transfers to the Trustee for deposit to the Debt Service Account to the extent necessary to replenish any deficiency or deficiencies therein, (2) emergency debt service needs with respect to Outstanding Bonds, Subordinated Indebtedness or other indebtedness used for Airport purposes and (3) Airport operational emergencies.

Notwithstanding the foregoing, after the Net Revenues for three consecutive Fiscal Years equals at least 1.60 times the Aggregate Adjusted Debt Service for such Fiscal Years, the Comptroller, upon the receipt of a request of the Airport Authority, may determine to reduce or eliminate the Debt Service Stabilization Fund Requirement and/or eliminate the Debt Service Stabilization Fund.

For additional information regarding the Debt Service Stabilization Fund, see **APPENDIX C – "Summary of Certain Provisions of the Indenture."**

## Outstanding Bonds, Additional Bonds and Refunding Bonds

### *Outstanding Bonds*

The following series of Bonds constituted the Outstanding Bonds under the Indenture as of December 1, 2006.

<u>Title</u>	<u>Dated Date</u>	<u>Original Amount of Issue</u>	<u>Amount Outstanding</u>
Airport Revenue Refunding Bonds, Series 1996 (AMT)	April 1, 1996	\$ 37,760,000	\$ 4,275,000
Airport Revenue Bonds, Series 1997B (AMT)	August 15, 1997	159,185,000	145,725,000
Airport Revenue Refunding Bonds, Series 1998 (Non-AMT)	December 1, 1998	69,260,000	54,330,000
Airport Revenue Bonds, Airport Development Program Fund, Series 2001A (Non-AMT)	May 1, 2001	435,185,000	209,205,000
Airport Revenue Bonds, Series 2002A (Capital Improvement Program) (Non-AMT)	December 19, 2002	69,195,000	58,795,000
Airport Revenue Bonds, Series 2002B (Capital Improvement Program) (AMT)	December 19, 2002	31,755,000	31,150,000
Airport Revenue Refunding Bonds, Series 2002C (AMT)	December 19, 2002	17,035,000	9,610,000
Airport Revenue Refunding Bonds, Series 2003A (Non-AMT)	February 25, 2003	70,340,000	70,340,000
Airport Revenue Refunding Bonds, Series 2005 (Non-AMT)	July 7, 2005	<u>263,695,000</u>	<u>263,695,000</u>
Total		<u>\$1,153,410,000</u>	<u>\$847,125,000</u>

### *Additional Bonds*

Additional Bonds, equally and ratably secured under the Indenture on a parity with Outstanding Bonds, including the Series 2007A Bonds, may be authorized and issued by the City upon satisfaction of certain conditions for the purpose of providing funds for the extension, improvement or enlargement of the Airport.

The City may issue Additional Bonds only if (i) sufficient bonding authority remains pursuant to the Voter Approval and (ii) the Additional Bonds Test under the Indenture is met, including receipt by the Trustee of certain certificates, reports and information, including the following:

1. A certificate of the independent certified public accountant for the Airport stating (a) the Net Revenues of the Airport for any period of 12 consecutive months out of the 18 months preceding the delivery of such Additional Bonds and (b) the Aggregate Adjusted Debt Service for such 12-month period, and demonstrating for such 12-month period that Net Revenues equaled at least 1.25 times the Aggregate Adjusted Debt Service; and
2. A certificate of an authorized officer of the City demonstrating that, among other things, the estimated Net Revenues of the Airport for each of the three Fiscal Years following the Fiscal Year in which the Project or any Additional Project will be completed, will be at least equal to 1.25 times Aggregate Adjusted Debt Service for each of such three Fiscal Years.

The amount of Pledged PFC Revenues that may be counted for the purpose of meeting the Additional Bonds Test for any Fiscal Year shall not exceed 125% of the sum of the outstanding and proposed PFC-Eligible Debt Service for such Fiscal Year.

### ***Refunding Bonds***

Refunding Bonds, equally and ratably secured under the Indenture on a parity with Outstanding Bonds, including the Series 2007A Bonds, may be authorized and issued by the City upon satisfaction of certain conditions, for the purpose of refunding all or a portion of the principal and/or interest components of Outstanding Bonds, Subordinated Indebtedness (described below) or Special Facilities Indebtedness (described below) or any other indebtedness issued for Airport purposes.

Refunding Bonds may be issued only upon receipt by the Trustee of certain certificates, reports and information, including either of the following: (1) a certificate of an Authorized Officer of the City setting forth (a) the Aggregate Debt Service and the Aggregate Adjusted Debt Service for the then-current and each future Fiscal Year to and including the Fiscal Year next preceding the date of the latest maturity of any Bonds of any Series then Outstanding (i) with respect to the Bonds of all Series Outstanding immediately prior to the date of authentication and delivery of such Refunding Bonds and (ii) with respect to the Bonds of all Series to be Outstanding immediately thereafter, and (b) that the Aggregate Adjusted Debt Service and the Aggregate Debt Service set forth for each Fiscal Year pursuant to (ii) above are not greater than the corresponding amounts set forth for such Fiscal Year pursuant to (i) above; or (2) the certificates required by the Indenture evidencing that the Additional Bonds Test has been met, considering, for all purposes of such test, that such Refunding Bonds are Additional Bonds.

### **Subordinated Indebtedness and Special Facilities Indebtedness**

The Indenture permits the City to issue or refund bonds, notes, commercial paper, certificates, warrants or other evidence of indebtedness payable as to principal and interest from the Net Revenues, subject and subordinate to the deposits and credits required to be made therefrom to the Debt Service Account and the Debt Service Reserve Account, or to secure such bonds, notes, commercial paper, certificates, warrants or other evidences of indebtedness and the payment thereof by a lien and pledge on the Net Revenues junior and subordinate to the lien and pledge on the Net Revenues created under the Indenture for the payment of and security on the Bonds (the "Subordinated Indebtedness").

At any time after authorization, but prior to the issuance of Subordinated Indebtedness, the City must furnish to the Trustee a certificate of the City with respect to the specific principal amount of Subordinated Indebtedness proposed to be issued (the "Certified Amount"), that provides as follows: annual estimated Net Revenues available, after payment of Debt Service of the Outstanding Bonds, for each of the three Airport Fiscal Years following the Airport Fiscal Year in which it is estimated that the Airport has beneficial occupancy of the Airport project to be financed or refinanced (in whole or in part) from the proceeds of such Certified Amount, will be at least equal to 1.10 times the sum of (1) estimated debt service on the Certified Amount proposed to be issued, (2) debt service on all outstanding Subordinated Indebtedness, and (3) estimated debt service on any other previously Certified Amounts to the extent that such Certified Amounts are not outstanding, but are still authorized and available to be issued.

In May 2004, the City authorized the issuance of not to exceed \$125,000,000 Airport Revenue Commercial Paper Notes, Lambert-St. Louis International Airport, 2004 Program in three series (the "CP Notes"), \$50,000,000 of which has been certified as described above. JPMorgan Chase Bank has issued its direct-pay letter of credit to secure up to \$50,000,000 principal amount of CP Notes. The indenture

authorizing the CP Notes provides that CP Notes may not be issued if the principal amount of the CP Notes outstanding, together with interest to accrue to maturity thereon, would exceed the amount available to be drawn on the Letter of Credit. CP Notes in the amount of \$1,000,000 are outstanding as of December 1, 2006.

The Indenture permits the issuance of obligations other than Bonds by the City or otherwise ("Special Facilities Indebtedness") for the purpose of financing capital improvements to be located on Airport property, provided that such Special Facilities Indebtedness will not be payable from Revenues. Special Facilities Indebtedness must be payable solely from rentals and other charges paid by the person, firm or corporation utilizing such Special Facilities. Prior to the issuance of the Special Facilities Indebtedness, there must be filed with the Trustee a certificate of the Airport Consultant certifying that (i) the estimated rentals, payments and other charges (including interest earnings on any reserves) to be paid with respect to the Special Facilities will be at least sufficient to pay the principal of and interest on such Special Facilities Indebtedness together with all costs of operating, maintaining and securing the Special Facilities; and (ii) the construction and operation of the Special Facilities to be financed will not decrease the Revenues presently projected to be derived from the Airport. The City is required to charge a fair and reasonable rental for land upon which any Special Facilities are to be constructed, and such ground rent will be deemed Revenues of the Airport. There currently is no Special Facility Indebtedness outstanding. The City has no current plans to incur such indebtedness.

#### **Matters Relating to Enforceability**

The practical realization of any rights upon any default will depend upon the exercise of various remedies specified in the Indenture. These remedies, in certain respects, may require judicial action, which is often subject to discretion and delay. Under existing law, certain of the remedies specified in the Indenture may not be readily available or may be limited. A court may decide not to order the specific performance of the covenants contained in these documents. The security interest in the Revenues granted pursuant to the Indenture may be subordinated to the interest and claims of others in several instances. Examples of cases of subordination or prior claims are described under "**THE SERIES 2007A BONDS - Matters Relating to Security for the Series 2007A Bonds.**"

The application of federal bankruptcy laws may have an adverse effect on the ability of the Trustee and the Bondholders to enforce their claim to the Revenues. Federal bankruptcy law permits adoption of a reorganization plan, even if such plan has not been accepted by the Holders of a majority in aggregate principal amount of the Bonds, if the Bondholders are provided with the benefit of their original lien or the "indubitable equivalent." In addition, if a bankruptcy court concludes that the Bondholders have "adequate protection," it may under certain circumstances (a) substitute other security for the security provided by the Indenture for the benefit of the Bondholders and (b) subordinate the lien of the security interest of the Trustee to (1) claims by persons supplying goods and services to the bankrupt after the bankruptcy and (2) the administrative expenses of the bankruptcy proceeding. In the event of the bankruptcy of the City or any of the Signatory Airlines, the amount realized by the Bondholders might depend, among other factors, on the bankruptcy court's interpretation of various legal doctrines under the then-existing circumstances.

All legal opinions with respect to the enforceability of the Indenture will be expressly subject to a qualification that enforceability thereof may be limited by bankruptcy, reorganization, insolvency, moratorium or other similar laws affecting creditors' rights generally and by applicable principles of equity.

## **Matters Relating to Security for the Series 2007A Bonds**

The amount of Revenues to be received by the City is subject to a number of factors, including: (a) the Revenues may be commingled with other moneys of the City and, therefore, are not sufficiently identifiable to enforce the City's covenants with respect to any required transfers; (b) statutory liens; (c) rights arising in favor of the United States of America or any agency thereof; (d) constructive trusts, equitable or other rights impressed or conferred by a federal or state court in the exercise of its equitable jurisdiction; (e) federal bankruptcy laws that may affect the enforceability of such security interest or certain federal statutes, regulations and judicial decisions that have cast doubt upon the right of the Trustee, in the event of the City's default, to collect and retain accounts receivable from the Revenues and other governmental programs; (f) rights of third parties in certain types of Revenues, such as instruments and cash not in the possession of the Trustee; and (g) requirements for filing Uniform Commercial Code continuation statements.

### **Acceleration**

Upon the occurrence of certain events set forth in the Indenture, including a default in the payment of principal of, premium, if any, or interest on the Bonds, the Trustee may, and upon the written request of the Bond Insurer or 25% of the Bondholders, the Trustee is required to, declare the principal of the Bonds and all accrued interest to be due and immediately payable. The Series 2007A Bonds may not be accelerated without the consent of the Bond Insurer. See **APPENDIX C- "Summary of Certain Provisions of the Indenture – The Indenture – Provisions Relating to the Series 2007A Bond Insurance."**

### **Remedies**

For a description of the events of default under the Indenture and the remedies available to Holders of the Bonds, see **APPENDIX C - "Summary of Certain Provisions of the Indenture - The Indenture-Events of Default and Remedies," "-Restrictions on Bondholders' Actions" and "-Waiver of Events of Default."**

## **PLAN OF FINANCE**

### **General**

The proceeds of the Series 2007A Bonds, together with other available funds, will be used (i) to refund the Refunded Bonds (defined below), (ii) to fund a portion of the required reserve requirement for the Series 2007A Bonds and (iii) to pay costs of issuing the Series 2007A Bonds.

### **Plan of Refunding**

The Series 2007A Bonds are being issued to refund a portion of the City's Airport Revenue Bonds, Airport Development Program Fund, Series 2001A (the "Refunded Series 2001A Bonds") and a portion of the Series 2002A Bonds (the "Refunded Series 2002A Bonds" and together with the Refunded Series 2001A Bonds, the "Refunded Bonds") to realize interest savings. A portion of the savings on this transaction will be passed on to the airlines serving the Airport through an adjustment made to the interest rate component of the airlines' rates and charges over the remaining life of the underlying projects.

The City will enter into an Escrow Deposit Agreement with UMB Bank, N.A., as Escrow Agent, dated as of January 1, 2007, pursuant to which a portion of the proceeds of the Series 2007A Bonds will be deposited into an Escrow Fund and administered in accordance with the terms of the Escrow Agreement. The Escrow Fund deposit will provide funds which will be used to pay the principal of and interest on the Refunded Bonds on the dates described in the Escrow Agreement and to redeem the remaining Refunded Bonds at par on the respective call dates of July 1, 2011, and July 1, 2012. See "VERIFICATION AGENT" herein.

### **Series 2007B Bonds**

Simultaneously with the sale of the Series 2007A Bonds, the City entered into a forward delivery contract for the purchase and sale of \$104,735,000 of its Series 2007B Bonds, the proceeds of which will be used to currently refund a portion of the Refunded Series 1997B Bonds. The City currently expects that the Series 2007B Bonds will be issued on or about April 3, 2007.



## SOURCES AND USES OF FUNDS

The following sets forth the estimated sources and uses of the proceeds of the Series 2007A Bonds and other available funds:

### Sources:

Par Amount	\$231,275,000.00
Plus Net Original Issue Premium	15,797,801.40
Other Sources*	<u>5,601,667.56</u>

**Total:** \$252,674,468.96

### Uses:

Escrow Fund Deposit	\$241,932,790.20
Debt Service Reserve Fund Deposit	4,604,681.00
Debt Service Fund Deposit	996,986.56
Costs of Issuance **	<u>5,140,011.20</u>

**Total:** \$252,674,468.96

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\* Transfers from various funds and accounts relating to the Refunded Bonds.

\*\* Includes underwriters' discount and premiums for the Bond Insurance Policy and the Reserve Policy as well as other fees and expenses.

## DEBT SERVICE REQUIREMENTS

The following table summarizes the annual debt service requirements for all Outstanding Bonds, the Series 2007A Bonds and the Series 2007B Bonds.

<u>Fiscal Year</u> <u>Ending June 30</u>	<u>Outstanding Debt</u> <u>Service*</u>	<u>Series 2007A Bonds</u> <u>Principal &amp; Interest</u>	<u>Series 2007B Bonds</u> <u>Principal &amp; Interest</u>	<u>Total</u> <u>Debt Service</u>
2007	\$60,709,248	\$ 4,987,363	\$ 1,280,094	\$66,976,706
2008	47,420,435	11,363,613	5,236,750	64,020,798
2009	46,235,899	11,363,613	5,236,750	62,836,262
2010	47,435,809	11,363,613	5,236,750	64,036,172
2011	48,104,196	11,363,613	5,236,750	64,704,559
2012	41,646,329	20,033,613	5,236,750	66,916,692
2013	42,211,798	24,355,113	5,236,750	71,803,661
2014	40,353,698	25,933,863	5,236,750	71,524,311
2015	49,338,287	13,200,113	11,496,750	74,035,149
2016	42,451,787	11,873,863	11,468,750	65,794,399
2017	42,581,224	11,804,613	11,446,500	65,832,336
2018	43,355,884	11,437,363	11,014,000	65,807,247
2019	33,971,594	11,436,863	11,021,000	56,429,456
2020	17,986,044	27,430,663	11,020,750	56,437,457
2021	15,494,725	30,024,413	11,017,750	56,536,888
2022	14,307,976	31,101,913	11,016,250	56,426,138
2023	12,694,225	26,415,163	11,020,250	50,129,638
2024	12,693,475	26,421,913	11,018,500	50,133,888
2025	12,695,900	26,421,163	11,020,250	50,137,313
2026	12,687,126	26,419,413	11,019,250	50,125,788
2027	34,287,150	4,748,900	11,014,500	50,050,550
2028	34,526,925	4,746,650	-	39,273,575
2029	34,525,250	4,742,813	-	39,268,063
2030	34,525,400	4,747,175	-	39,272,575
2031	34,527,700	4,744,100	-	39,271,800
2032	2,147,250	4,748,588	-	6,895,838
<b>TOTAL</b>	<b><u>\$858,915,333</u></b>	<b><u>\$403,230,076</u></b>	<b><u>\$182,531,844</u></b>	<b><u>\$1,444,677,253</u></b>

\* Excludes the debt service on the Refunded Series 2001A Bonds and the Refunded Series 2002B Bonds to be refunded with a portion of the proceeds of the Series 2007A Bonds and the debt service on the Refunded Series 1997B Bonds to be refunded with a portion of the proceeds of the Series 2007B Bonds.

## **THE CITY OF ST. LOUIS**

### **General**

The City of St. Louis, Missouri, a constitutional charter city not a part of any county, is organized and exists under and pursuant to its Charter and the Constitution and laws of the State of Missouri. The Airport is owned by the City and operated by the Airport Authority. The Airport Authority was created by ordinance of the Board of Aldermen of the City.

The City is located on the Mississippi River, the eastern boundary of the State of Missouri, just below its confluence with the Missouri River. The City occupies approximately 61.4 square miles of land, and its area has remained constant since 1876. The City is popularly known as the "Gateway to the West," due to its central location and historical role in the nation's westward expansion. Commemorating this role is the 630-foot stainless steel Gateway Arch, the world's tallest man-made monument, which is the focal point of the 86-acre Jefferson National Expansion Memorial on the downtown riverfront.

### **Government**

The City's system of government is provided for by its Charter, which first became effective in 1914 and has subsequently been amended from time to time by the City's voters.

The Mayor, elected to a four-year term, is the chief executive officer of the City. The Mayor appoints most department heads, municipal court judges and various members of the City's boards and commissions. The Mayor possesses the executive powers of the City, which are exercised by the boards, commissions, officers and departments of the City under his general supervision and control.

The Comptroller is the City's chief fiscal officer, and is elected at large to a four-year term. The Comptroller is, by Charter, Chairperson of the Department of Finance for the City and also has broad investigative audit powers over all City departments and agencies. The Comptroller has administrative responsibility for all of the City's contracts, financial departments and accounting procedures.

The legislative body of the City is the Board of Aldermen. The Board of Aldermen is comprised of 28 Aldermen and a President. One Alderman is elected from each of the City's 28 wards to serve a four-year term, and Aldermen are elected for one-half of the wards every two years. The President of the Board of Aldermen is elected at large to serve a four-year term. The President is the presiding officer of the Board of Aldermen. The Board of Aldermen may adopt bills or ordinances which the Mayor may either approve or veto. Ordinances may be enacted by the Board of Aldermen over the Mayor's veto by a two-thirds vote.

The Board of Estimate and Apportionment is primarily responsible for the finances of the City. The Board of Estimate and Apportionment is comprised of the Mayor, the Comptroller and the President of the Board of Aldermen.

While most governmental functions of the City are controlled by the Mayor, the Comptroller, the Board of Estimate and Apportionment and the Board of Aldermen, the appointment of certain officials, including the members of the Board of Police Commissioners and the Board of Election Commissioners, is made by the Governor of the State of Missouri. The Sheriff, Treasurer, Collector of Revenue, License Collector, Circuit Clerk, Circuit Attorney, Public Administrator and Recorder of Deeds of the City are elected independently to four-year terms.

## **THE AIRPORT**

### **General**

The Airport is located in St. Louis County, which is adjacent to the City, approximately 15 miles northwest of the City's central business district, a drive of approximately 20 to 30 minutes on Interstate Highway 70, and approximately ten miles from the center of population of the St. Louis metropolitan area. The Airport is classified as a "Medium Hub Airport" by the Federal Aviation Administration (the "FAA"), as it enplaned less than 1% of the total passengers in the U.S. in 2005.

The Airport was originally established by Major Albert Bond Lambert and other aviation pioneers on a 160-acre site. It was acquired by the City in 1929 and subsequently expanded to slightly more than 2,100 acres. The completion of the first phase of the ADP (as defined herein) has resulted in the expansion of the Airport to 3,600 acres.

According to the Airports Council International ("ACI") worldwide traffic report for CY 2005, the Airport ranked as the 31st busiest airport nationwide in terms of total passengers. Total enplanements at the Airport for Fiscal Year 2006 were approximately 7.05 million, of which 78% were originating passengers and 22% were connecting passengers, representing an increase of 8.2% from the prior year. Based on enplanements, American Airlines is the dominant carrier at the Airport followed by Southwest Airlines ("Southwest"). See "**AIRPORT OPERATIONS**."

### **Service Area**

The Airport's primary service area consists of the St. Louis Metropolitan Statistical Area (the "St. Louis Area"), which includes the City, Crawford, Franklin, Jefferson, Lincoln, St. Charles, St. Louis, Warren and Washington counties in Missouri and Bond, Calhoun, Clinton, Jersey, Macoupin, Madison, Monroe and St. Clair counties in Illinois. The Airport is currently the only major commercial airport in the St. Louis Area. The FAA identifies six reliever airports in the St. Louis Area. They are Spirit of St. Louis Airport in west St. Louis County, Missouri; St. Louis Downtown Parks Airport in Cahokia, Illinois; St. Louis Regional Airport in Bethalto, Illinois; St. Charles Municipal Airport and St. Charles County/Smart Airport, St. Charles County, Missouri; and Creve Coeur Airport in St. Louis County, Missouri. These airports do not have runway lengths sufficient to accommodate large commercial aircraft.

In addition, MidAmerica Airport in St. Clair County, Illinois commenced operations in November 1997. MidAmerica Airport has two runways that can accommodate large jet aircraft and a four-gate passenger terminal that can be expanded to 85 gates. MidAmerica Airport primarily serves as a joint-use facility in connection with nearby Scott Air Force Base. Currently, Allegiant Air offers limited passenger service at MidAmerica Airport to Las Vegas, Nevada, and Orlando, Florida. MidAmerica Airport also serves general aviation clients and is being developed for international cargo operations.

### **Existing Airport Facilities**

Currently, the Airport's airfield includes four runways. Three primary runways may be used by the largest types of commercial aircraft currently in use without restrictions. The remaining runway is sufficient in length to handle safely all types of aircraft now serving the Airport.

In addition to the runways, there are more than 15 miles of 75-foot-wide concrete taxiways and four concrete holding pads. All runways and taxiways are equipped with FAA-approved lights with controllable brightness switching. Aircraft parking, servicing and refueling space is provided by 88 acres

of concrete apron used by scheduled commercial air carriers and 18 acres of concrete apron leased to two fixed-base operators and used by general aviation aircraft.

### **Terminal Facilities**

Terminal facilities include the West Terminal and the East Terminal. The West Terminal contains 1,089,915 square feet of building space and is comprised of the Main Terminal and four concourses (Concourses A, B, C and all but the four easternmost gates in Concourse D) with 67 aircraft gates in a mixed configuration. The East Terminal has 322,521 square feet of building space with 19 aircraft gates, which includes 12 narrowbody aircraft gates, the four easternmost gates in Concourse D and three gates in the International Area.

When its Airline Agreement expired on December 31, 2005, American Airlines vacated and released a significant portion of its space in Concourse C and almost all of its space in Concourse D. Currently, American Airlines and its affiliates are using 17 of the 30 gates in Concourse C and Frontier Airlines is using two of the 11 gates in Concourse D. Of the gates in other terminal areas, 13 of the 16 gates in Concourse A, one of the 10 gates in Concourse B and 12 of the 19 gates in the East Terminal currently are being used. The remaining gates in each of the Concourses are vacant. The City has undertaken marketing efforts to fill the 41 vacant gates.

### **Public Parking**

Currently, public parking consists of a 1,965-car parking structure adjacent to the Main Terminal and a 980-car parking structure at the East Terminal, which provide a total of 2,945 short-term parking spaces. An additional 993 spaces are available for intermediate-term parking in a surface lot immediately behind the parking structure at the Main Terminal. The Airport also has long-term parking available totaling 6,145 spaces. The parking structure adjacent to the Main Terminal is currently undergoing a \$19.5 million renovation, which includes new lighting and signage, replacement of expansion joints and deck and column repairs.

### **Other Facilities**

The other principal structures owned by the City at the Airport are five cargo buildings and 18 related shop and service buildings. In addition, there are other structures at the Airport not owned by the City, which include general aviation hangars, a Missouri Air National Guard (the "MoANG") hangar and certain other cargo facilities.

There also are two fixed base lease operators, Signature Flight Support Corporation, which leases its premises from the City, and Sabreliner Corporation, which also has a ground lease with the City. They occupy various hangars and storage facilities at the Airport. The Boeing Company and the MoANG, both of which adjoin the Airport, use the Airport's runways and taxiways.

In December 2001, the City acquired from McDonnell Douglas Corporation ("MDC") a 76-acre parcel of land adjacent to the northern boundary of the Airport (the "MDC Facilities"), and leased the MDC Facilities to MDC while it constructed replacement facilities on another parcel of land it is leasing from the City at the Airport. The lease terminated and the MDC facilities were made available to the City for redevelopment on June 30, 2005. The City is in the process of engaging a developer to redevelop the MDC facilities for the purpose of establishing an airfield related business.

A cargo facility leased from the City by St. Louis Air Cargo Services, which in turn subleases facilities to Federal Express, United Parcel Service ("UPS"), UPS Supply Chain Solutions and Air Transportation International, sits on a 31.1 acre site and contains a 100,000 square-foot cargo building and a 448,000 square-foot aircraft parking apron. In addition, UPS leases an 18,000-square-foot cargo warehouse facility adjacent to a 200,000 square foot parking apron.

## **CERTAIN AGREEMENTS FOR USE OF THE AIRPORT'S FACILITIES**

### **Airport Use, Operating and Cargo Agreements**

In 2006, the City entered into substantially identical Airport Use and Lease Agreements (individually with respect to each air carrier, a "Use Agreement" and, collectively, the "Use Agreements") or Airline Operating Agreements and Terminal Space Use Permits (individually with respect to each air carrier, an "Operating Agreement", and collectively, the "Operating Agreements") and, in some instances, Cargo Addenda (individually with respect to each air carrier, a "Cargo Addendum", and collectively, the "Cargo Addenda") with all major and regional air carriers serving the Airport, thereby replacing the previous airport use, operating and cargo agreements that had been in place since 1965.

#### ***Use Agreements***

Each of the Use Agreements expires June 30, 2011, unless earlier terminated for non-performance or default. See **APPENDIX D - "Summary of Certain Provisions of the Use Agreements and the Operating Agreements."** All air carriers operating at the Airport pursuant to a Use Agreement are referred to as the "Signatory Airlines." The Use Agreements grant the Signatory Airlines the right to use, as applicable, the airfield, the terminal building, including the concourses and related facilities for the business of air transportation with respect to persons, property, cargo and mail and provide for the payment of rentals, fees and charges by the Signatory Airlines, and the application of the landing fee rate mitigation (described below).

A Signatory Airline may elect to become a "Participating Airline". A Participating Airline commits to pay a minimum of \$100,000 annually in rents, fees and charges throughout the term of its Use Agreement, and receives a limited right, among others, to review and approve certain capital improvement projects at the Airport and a right to participate in the Airport's annual rate setting process. In addition, a Participating Airline may designate a non-Signatory Airline as its "Affiliate." Affiliates enjoy some, but not all, of the benefits of Signatory Airlines. Affiliates' landed weight is included in the calculation of the target for the landing fee rate mitigation (described below).

The Use Agreements provide two mechanisms for the Airport to undertake and recover costs of certain capital improvement projects without having to seek further review by and approval of the Participating Airlines. First, the Use Agreements include a list of capital improvement projects, estimated to cost approximately \$153 million, which are deemed "pre-approved" by the Signatory Airlines and are included in the Airport's current 5-year capital improvement program. See **"CAPITAL IMPROVEMENT PROGRAMS AT THE AIRPORT."** In addition, if a project that was not pre-approved by the Signatory Airlines meets certain requirements provided in the Use Agreements, the City may undertake and recover costs attributable to such a project without obtaining approval from the Participating Airlines. For more information, see **APPENDIX D - "Summary of Certain Provisions of the Use Agreements and the Operating Agreements."**

Any capital improvement project that is not excluded from the review because it is not pre-approved and it does not meet the exception requirements provided in the Use Agreements, and any

pre-approved capital improvement project whose actual cost is 110% greater than the pre-approved cost provided in the Use Agreements must be presented by the City to the Participating Airlines for their review. Once a project has been presented to the Participating Airlines for review, the City may proceed with the project and include the amortization of net costs in the rate base unless a majority-in-interest ("MII") of the Participating Airlines disapproves.

MII is defined as 66.66% of the Participating Airlines operating at the affected cost center that, within the immediately preceding Fiscal Year, paid no less than 66.66% of the rents, fees and charges applicable to that cost center. The City has received either an MII approval pursuant to the previous airline use agreements or acquiescence by inclusion in the rate formula set forth in the current Use Agreements for substantially all of its current Airport improvement programs. For additional information regarding the Airport's current Airport improvement programs, see **"CAPITAL IMPROVEMENT PROGRAMS AT THE AIRPORT."**

Rentals, fees and charges are assessed to the Signatory Airlines and the other air carriers using the Airport to support the primary activities of the Airport - the airfield and the terminal complex (including the West Terminal and the East Terminal). The Use Agreements permit the City to adjust rentals, fees and charges for each rate period to reflect overpayments and underpayments that occurred during the preceding rate period, and, to the extent necessary, replenish reasonable reserves for uncollected revenues.

### ***Operating Agreements***

Each Operating Agreement is a month-to-month operating permit that may be terminated by either party by providing a 30-day written notice. Air carriers electing to operate at the Airport under an Operating Agreement are considered "non-Signatory Airlines." The City receives various rentals, fees and charges from non-Signatory Airlines. Air carriers operating at the Airport pursuant to an Operating Agreement are subject to the same landing fee rate as the Signatory Airlines, and are entitled to the benefit from any landing fee rate mitigation. In addition, the City charges non-Signatory Airlines who request space in one of the terminal buildings a space use fee equal to 125% of the terminal rental rate payable by the Signatory Airlines (unless the airline is designated as an Affiliate by a Participating Airline, in which case its space use fee is calculated using the same terminal rental rate applicable to the Signatory Airlines).

### ***Cargo Addenda***

Cargo carriers may elect to operate under either a Use Agreement or an Operating Agreement, but must execute the applicable cargo addendum which, among other things, prohibits cargo air carriers from operating from the Airport's passenger terminal buildings.

The enforcement of the Use Agreements, the Operating Agreements, the Cargo Addenda and any other agreements and leases between the City and users of the Airport may be limited by, and subject to, the provisions of the federal bankruptcy laws, as now or hereafter enacted, and to other laws or equitable principles that may affect the enforcement of creditors' rights. No assurance is given that a bankruptcy filing by or against any air carrier will not result in delay in enforcing the City's legal, equitable and contractual rights with respect to the Airport.

For additional information regarding air carrier rates and charges, including the methodology and requirements for calculating landing fees and rents and other fees and for obtaining MII approval, see **APPENDIX D - "Summary of Certain Provisions of the Use Agreements and the Operating Agreements."**

### ***Landing Fee Rate Mitigation***

The significant reduction in air traffic activity at the Airport — caused in large part by the reduction in American Airlines' operations in November 2003 and cost increases resulting from the opening of the new runway in April 2006 — has resulted in a substantial reduction in total aircraft landed weight and placed considerable upward pressure on landing fee rates. In order to mitigate future increases in landing fee rates and to provide a more cost-effective operating environment for airlines serving the Airport, the City will provide, subject to the availability of funds and annual appropriations by the Board of Aldermen, up to \$40 million from internal resources of the Airport, including funds from the Contingency Fund, for landing fee rate mitigation over the term of the Use Agreements. The maximum allocation of the amounts to be made available by Fiscal Year is as follows:

FY 2007	\$12,000,000
FY 2008	10,000,000
FY 2009	8,000,000
FY 2010	6,000,000
FY 2011	<u>4,000,000</u>
Total	<u>\$40,000,000</u>

The final allocation, if any, for each Fiscal Year will be made at the discretion of the City with the objective of evening out year-to-year variations in the landing fee rate payable by all air carriers serving the Airport. The landing fee rate mitigation program also is structured to provide a continuing incentive for growth in air service at the Airport. Fifty percent of each annual amount to be provided for rate mitigation will be made available only so long as the Participating Airlines and their Affiliates maintain their CY 2005 level of air service at the Airport (as measured by aggregate landed weight) and fifty percent will be made available only in increments as additional thresholds of air service growth are realized. For additional information, see **APPENDIX D - "Summary of Certain Provisions of the Use Agreements and the Operating Agreements."**

### ***Federal Policy on Air Carrier Rates and Charges***

The Federal Aviation Administration (the "FAA") Authorization Act of 1994 (the "1994 Act") requires airport fees to be "reasonable" and provides a mechanism by which the Secretary of Transportation can review rates and charges complaints brought by air carriers. The 1994 Act provisions do not apply to fees imposed pursuant to a written agreement with air carriers using airport facilities. There is currently no dispute between the City and any of the air carriers operating at the Airport over any existing or proposed rates and charges. There is no assurance, however, that such disputes will not arise in the future.

### ***Airport Maintenance***

Under the terms of both the Use Agreements and the Operating Agreements, the City is required to maintain and keep in good repair all of the public areas and facilities of the Airport, including the structures associated with the terminal buildings, the utility systems within the Airport, and all other common use systems owned and operated by the City. For their part, the Signatory Airlines and the non-Signatory Airlines are individually required to repair and maintain in good condition the premises leased or assigned to each of them, including that portion of the utility systems serving each of their exclusive use facilities.



## **Concession Agreements**

The City has agreements to lease space at the Airport to certain concessionaires who provide food, beverages, retail, newspaper and other items to users of the Airport. The City has entered into management contracts with Host International for the food and beverage operations and with Paradies for retail operations at the Airport each of which expires on January 31, 2013, and with Bookmark for specialty retail and business center operations, which expires on June 30, 2010. Host International and Bookmark are obligated to pay a percentage of the prior year's concession revenues and Paradies is obligated to pay a fixed minimum annual guarantee ("MAG") to the City. Terminal concession revenue represented 21.6% of total concession revenue and 6.3% of total operating revenue in the Fiscal Year ended June 30, 2006.

The City also has a management contract with Central Parking Systems of St. Louis ("Central") for the operation of the parking facilities at the Airport. The contract's initial two-year term ended on May 31, 2006, but the City renewed the contract through May 31, 2007 with an option to renew the contract for an additional year. Under the contract, the City retains all of the receipts from the parking operations and periodically reimburses Central for expenses in addition to paying Central an annual fee for its services. Parking revenue represented 38.3% of total concession revenue and 11.2% of total operating revenue in the Fiscal Year ended June 30, 2006.

The City has contracts with Avis, Alamo/National, Budget, Dollar, Enterprise, Hertz and Thrifty for the operation of the rental car facilities at the Airport, all of which expire on December 31, 2008. The City receives the greater of a MAG payment or 10% of gross receipts from each rental car operator. Rental car revenue represented 32.4% of total concession revenue and 7.9% of total operating revenue in the Fiscal Year ended June 30, 2006.

## AIRPORT OPERATIONS

### Air Carrier Service

Listed below are air carriers which served the Airport in the month of November 2006.

#### Major Air Carriers

American Airlines<sup>1, 2</sup>  
Air Canada  
Continental<sup>1, 2</sup>  
Delta<sup>1, 2</sup>  
Frontier<sup>1, 2</sup>  
Northwest<sup>1, 2</sup>  
Southwest<sup>1, 2</sup>  
United Airlines<sup>1, 2</sup>  
US Airways<sup>1, 2</sup>  
USA 3000

#### Regional Air Carriers

Air Wisconsin  
American Eagle<sup>3</sup>  
Atlantic Southeast<sup>3</sup>  
Chautauqua<sup>1, 2</sup>  
Comair<sup>3</sup>  
Expressjet<sup>1, 2</sup> (d/b/a Continental Express)  
Go Jet  
Jazz Air<sup>1</sup> (d/b/a Air Canada)  
Mesa  
Mesaba<sup>3</sup>  
Pinnacle<sup>3</sup>  
PSA  
RegionsAir<sup>1, 2</sup>  
Skyway (Midway Connect)  
Skywest  
Trans States<sup>1, 2</sup>

#### Air Cargo Carriers

ABX Air  
Air Transportation International  
ASTAR  
Capital Cargo International  
Federal Express  
United Parcel Service<sup>1, 2</sup>

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<sup>1</sup> An air carrier that is a Signatory Airline.

<sup>2</sup> A Signatory Airline that has elected to be a Participating Airline.

<sup>3</sup> A non-Signatory Airline that is an Affiliate of a Participating Airline.

### Airline Market Shares

The following table shows enplanements and market share by airline from CY 2001 through CY 2005.

**LAMBERT-ST. LOUIS INTERNATIONAL AIRPORT**  
**AIRLINE MARKET SHARE**  
**CY 2001 – 2005**

Airline	Enplanements					Market Share				
	2001	2002	2003	2004	2005	2001	2002	2003	2004	2005
<b>Air Carrier</b>										
America West	84,567	66,449	88,402	123,939	113,227	0.6%	0.5%	0.9%	1.8%	1.5%
American <sup>1</sup>	9,441,611	8,761,934	6,056,451	2,107,436	2,536,041	70.5%	68.2%	59.4%	31.4%	34.4%
Continental	58,682	42,135	11,960	43,154	399	0.4%	0.3%	0.1%	0.6%	0.0%
Delta	188,579	181,187	185,013	229,355	169,932	1.4%	1.4%	1.8%	3.4%	2.3%
Frontier	-	13,445	11,045	97,028	99,314	0.0%	0.1%	0.1%	1.4%	1.3%
Northwest	267,145	230,328	231,115	338,006	279,275	2.0%	1.8%	2.3%	5.0%	3.8%
Southwest	1,713,070	1,450,562	1,342,119	1,584,019	1,688,940	12.8%	11.3%	13.2%	23.6%	22.9%
United	246,272	260,555	223,180	228,406	130,270	1.8%	2.0%	2.2%	3.4%	1.8%
US Airways	172,046	139,358	5,087	25,701	64,542	1.3%	1.1%	0.0%	0.4%	0.9%
USA 3000				3,336	74,495	0.0%	0.0%	0.0%	0.0%	1.0%
<b>Subtotal-Air Carrier</b>	<b>12,171,972</b>	<b>11,145,953</b>	<b>8,154,372</b>	<b>4,780,380</b>	<b>5,156,435</b>	<b>90.9%</b>	<b>86.8%</b>	<b>80.0%</b>	<b>71.3%</b>	<b>70.0%</b>
<b>Commuter</b>										
Air Canada	21,107	19,504	13,333	17,647	19,885	0.2%	0.2%	0.1%	0.3%	0.3%
AA Connection/American Eagle			4,832	29,430	65,234	0.0%	0.0%	0.0%	0.4%	0.9%
AA Connection/Chautauqua	297,363	560,274	495,595	401,248	420,598	2.2%	4.4%	4.9%	6.0%	5.7%
AA Connection/RegionsAir	67,512	83,919	76,255	63,612	68,728	0.5%	0.7%	0.7%	0.9%	0.9%
AA Connection/Trans States	456,122	553,623	810,943	668,337	717,520	3.4%	4.3%	8.0%	10.0%	9.7%
Continental Express/Expressjet	114,196	111,803	135,230	149,617	190,223	0.9%	0.9%	1.3%	2.2%	2.6%
Delta Connection/Atlantic Coast				5,506	-	0.0%	0.0%	0.0%	0.1%	0.0%
Delta Connection/Atlantic Southeast				-	93,610	0.0%	0.0%	0.0%	0.0%	1.3%
Delta Connection/Comair	48,209	78,893	98,439	135,909	124,487	0.4%	0.6%	1.0%	2.0%	1.7%
Midwest Connect/Skyway	5,141	4,814	4,782	7,929	8,708	0.0%	0.0%	0.0%	0.1%	0.1%
Northwest Airlink/Mesaba	62,420	56,976	73,173	44,571	42,096	0.5%	0.4%	0.7%	0.7%	0.6%
Northwest Express/Pinnacle				5,441	44,695	0.0%	0.0%	0.0%	0.1%	0.6%
United Express/Go Jet				-	18,395	0.0%	0.0%	0.0%	0.0%	0.2%
United Express/Mesa	-	-	8,951	30,401	15,065	0.0%	0.0%	0.1%	0.5%	0.2%
United Express/Skywest				16,931	41,844	0.0%	0.0%	0.0%	0.3%	0.6%
United Express/Trans States	-	39,078	32,657	87,211	109,647	0.0%	0.3%	0.3%	1.3%	1.5%
US Airways Express/Air Wisconsin	-	-	30,247	-	18,246	0.0%	0.0%	0.3%	0.0%	0.2%
US Airways Express/Chautauqua	6,884	29,767	14,144	3,069	1,167	0.1%	0.2%	0.1%	0.0%	0.0%
US Airways Express/Mesa	11,349	6,608	72,310	76,842	52,952	0.1%	0.1%	0.7%	1.1%	0.7%
US Airways Express/PSA				23,550	25,455	0.0%	0.0%	0.0%	0.4%	0.3%
US Airways Express/Trans States	-	23,420	34,110	40,402	38,804	0.0%	0.2%	0.3%	0.6%	0.5%
US Airways Express	7,534	-	-	-	-	0.1%	0.0%	0.0%	0.0%	0.0%
<b>Subtotal-Commuter</b>	<b>1,097,837</b>	<b>1,568,679</b>	<b>1,905,001</b>	<b>1,807,653</b>	<b>2,117,359</b>	<b>8.2%</b>	<b>12.2%</b>	<b>18.7%</b>	<b>26.9%</b>	<b>28.8%</b>
<b>Subtotal-Charter<sup>2</sup></b>	<b>119,784</b>	<b>131,402</b>	<b>137,149</b>	<b>119,687</b>	<b>89,124</b>	<b>0.9%</b>	<b>1.0%</b>	<b>1.3%</b>	<b>1.8%</b>	<b>1.2%</b>
<b>Total Enplanements</b>	<b>13,389,593</b>	<b>12,846,034</b>	<b>10,196,522</b>	<b>6,707,720</b>	<b>7,362,918</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

<sup>1</sup> Includes TWA enplanements in 2001.

<sup>2</sup> Includes Champion Air which began service in July 2000.

Source: Airport Management

Together, American Airlines and its American Connection operators accounted for the largest share of enplanements, but their combined share declined from 76.8 percent in CY 2001 to 51.7 percent in CY 2005. The decline in American Airlines' enplanement share is the direct result of the reduction in mainline operations by American Airlines in November 2003. The number of annual enplanements and corresponding shares of American Airlines and its American Connection operators are as follows:

	<u>2001</u>	<u>2002</u>	<u>Calendar Year</u> <u>2003</u>	<u>2004</u>	<u>2005</u>
<b>Enplanements</b>					
American Airlines*	9,441,611	8,761,934	6,056,451	2,107,436	2,536,041
American Connection	822,917	1,197,816	1,387,625	1,162,627	1,272,080
Total	10,264,528	9,959,750	7,444,076	3,270,063	3,808,121
<b>Market Share</b>					
American Airlines*	70.6%	68.2%	59.4%	31.4%	34.4%
American Connection	6.2%	9.3%	13.6%	17.3%	17.3%
Total	76.8%	77.5%	73.0%	48.8%	51.7%

\* Includes Trans World Airways in CY 2001.

Source: Airport Management

Southwest Airlines has the second largest share of enplanements, which increased from 12.8 percent in CY 2001 to 22.9 percent in CY 2005.

As a group, mainline air carriers accounted for the majority of enplanements; however, their combined share decreased from 90.9 percent in CY 2001 to 70.0 percent in CY 2005. Frontier Airlines began service at the Airport in CY 2002 and USA 3000 began service at the Airport in CY 2004.

Prior to the terrorist events that occurred on September 11, 2001 (the "Events of September 11, 2001"), mainline air carriers had been increasingly using regional airlines to serve short-haul and low-density markets. The reduction in air travel demand, the difficult financial condition of airlines following the Events of September 11, 2001, and the relaxation of scope clauses<sup>1</sup> accelerated the transfer of routes – now including longer-haul routes – from mainline to regional operators. As a result, the market share of regional operators increased significantly in recent years. At the Airport, the combined market share of regional operators increased from 8.2 percent in CY 2001 to 28.8 percent in CY 2005. The following regional airlines began service at the Airport in the last five years: American Eagle for American Connection; Atlantic Coast Airlines (operated in 2004 only) and Atlantic Southeast Airlines for Delta Connection; Go Jet, Mesa Airways, Skywest Airlines and Trans States for United Express; and Air Wisconsin, PSA and Trans States for US Airways Express.

Air Canada and Jazz Air are the only foreign-flag carriers that operate at the Airport. Air Canada's market share increased from 0.2 percent in CY 2001 to 0.3 percent in CY 2005. Jazz Air commenced operations at the Airport in May 2006.

<sup>1</sup> Scope clauses are agreements between mainline carriers and their regional affiliates that define the size and number of regional jets an affiliate may have and/or the amount of flying that the affiliate can undertake. Source: FAA Aerospace Forecasts, Fiscal Years 2005-2015, March 2005, page IV-1.

## Passenger Enplanements

Passenger enplanements at the Airport are categorized as either origination and destination ("O&D") activity or connecting activity. The following table shows the O&D activity and connecting activity for the period from 1996 through 2005. O&D activity is influenced by local market factors and tends to track economic and demographic trends. Connecting activity is determined primarily by airlines' network strategies.

### LAMBERT-ST. LOUIS INTERNATIONAL AIRPORT O&D AND CONNECTING ENPLANEMENTS 1996-2005

Year	O&D		Connecting		Total Enplanements
	Actual	Share	Actual	Share	
CY 1996	7,122,202	52.2%	6,509,252	47.8%	13,631,454
1997	7,144,372	51.7%	6,676,207	48.3%	13,820,579
1998	7,107,768	49.6%	7,226,561	50.4%	14,334,329
1999	7,127,141	47.2%	7,965,840	52.8%	15,092,981
2000	7,260,756	47.5%	8,040,822	52.5%	15,301,578
2001	6,323,229	47.3%	7,042,280	52.7%	13,365,509
2002	5,750,948	44.8%	7,095,086	55.2%	12,846,034
2003	5,229,015	51.3%	4,967,507	48.7%	10,196,522
2004	5,263,363	78.5%	1,444,357	21.5%	6,707,720
2005	5,616,263	76.3%	1,746,655	23.7%	7,362,918
FY 1999	7,156,835	49.1%	7,422,499	50.9%	14,579,334
2000	7,193,492	47.1%	8,065,665	52.9%	15,259,157
2001	7,034,255	46.9%	7,949,293	53.1%	14,983,548
2002	5,780,267	45.8%	6,839,748	54.2%	12,620,015
2003	5,511,052	46.6%	6,317,177	53.4%	11,828,229
2004	5,159,761	64.4%	2,857,858	35.6%	8,017,619
2005	5,518,897	78.3%	1,529,462	21.7%	7,048,359
<b>Average Share</b>					
CY 1995-2005	-	54.6%	-	45.4%	-
<b>Annual Average Growth Rate</b>					
CY 1995-2005	-2.1%	-	-11.4%	-	-5.4%
FY 1999-2004	-4.2%	-	-23.1%	-	-11.4%

Source: Airport Management

The significant decline in connecting traffic at the Airport that occurred in 2004 was largely due to American Airlines' reduction of the number of flights to and from the Airport in November 2003 by more than half (from 387 daily departures in November 2002 to 193 daily departures in November 2003).

For the month of November 2006, American Airlines has 176 scheduled daily departures from the Airport to 58 domestic destinations, of which 56 daily departures are by its mainline service and 120 by its American Connection regional affiliates. For the month of November 2006, American Airlines has no scheduled direct flights from the Airport to any international destinations.

## **Risk Management**

The Airport is exposed to various risks of loss related to torts, such as theft of, damage to, and destruction of assets, errors and omissions, injuries to employees, and natural disasters. The Airport participates in the Public Facilities Protection Corporation ("PFPC"), an internal service fund of the City of St Louis, Missouri. The purpose of PFPC is to account for risks in which the City is self-insured, which are primarily workers' compensation, certain general liability claims, and various other claims and legal actions. All self-insured claims, liabilities and payments are recorded in PFPC. The Airport reimburses PFPC for workers' compensation claims on a cost-reimbursement basis.

The Airport purchases commercial insurance for risks that are significant and which are not covered by the City's self-insurance program. These coverages include commercial liability, property damage, business interruption, public officials' liability, employment liability, employee dishonesty, business auto, and insurance on the fine arts collection.

After the Events of September 11, 2001, terrorism coverage was excluded from the Airport's commercial liability, property damage and business interruption coverages. On November 26, 2002, President Bush signed into law the "terror insurance bill" to shield the insurance industry from catastrophic costs of future terrorist attacks. The passage of this law improved the ability of the Airport to obtain terrorism coverage. The Airport has procured property, automobile and public official insurance which includes coverage for terrorist events. However, policies which include terrorist coverage for commercial liability remain unavailable on reasonable financial terms and with meaningful coverage amounts.

The Airport has in force a commercial liability insurance policy with a limit of \$50 million and excess liability policy with a limit of \$300 million. The Airport's property insurance has a limit of \$100 million. The Airport also has an automobile policy and an excess automobile policy with total coverage of \$5 million, and public official and employee liability coverage of \$7 million. All policies provide coverage through October 1, 2007.

In addition to the coverage stated above, the City created a Rolling Owner Controlled Insurance Program ("ROCIP") to provide workers' compensation, general and special liability insurance to protect all enrolled contractors and their subcontractors. The ROCIP is designed to reduce conflicts among contractors and insurance providers and increase liability protection for all participants.

## **AIRPORT MANAGEMENT**

### **Introduction**

The Airport is owned by the City and operated by the Airport Authority. The Airport Authority was created by the City's Board of Aldermen by an ordinance adopted in 1968 and consists of the Airport Commission, the Airport Authority's Chief Executive Officer and other managers and personnel required to operate the Airport. The Chief Executive Officer of the Airport Authority is the Director of Airports who is appointed by the Mayor for a term that runs concurrently with the Mayor's term of office or until his or her successor is appointed.

The Airport Commission is responsible for the planning, development, management and operation of the Airport. The Airport Commission currently consists of the Director of Airports, who serves as Chairman of the Airport Commission, the Comptroller of the City, the President of the Board of Aldermen, the Chairman of the Transportation and Commerce Committee of the Board of Aldermen,

six members appointed by the Mayor, five members appointed by the St. Louis County Executive, one member appointed by St. Charles County, Missouri, and one member appointed by St. Clair County, Illinois. The present members of the Airport Commission are set forth in this Official Statement.

### **Airport Staff**

The Airport Commission and the Director of Airports have an Airport staff to aid them in carrying out their responsibilities. Key members of the Airport staff include a Deputy Director and four Assistant Directors.

Kevin Dolliole has served as the Director of Airports since May 2005. Prior to joining the Airport, Mr. Dolliole was Aviation Director for the San Antonio International Airport from 1999 to 2005. Prior to that position, he held several management level positions at the New Orleans International Airport from 1989 to 1999, including Acting Airport Director. Mr. Dolliole replaced Colonel Leonard Griggs who retired on December 31, 2004. Colonel Griggs was the Airport Director and Chairman of the Airport Commission from 1977 through 1987 and from 1993 through 2004.

Gerard Slay has served as the Deputy Director of Airports since February 2000. Mr. Slay is responsible for airfield and terminal buildings maintenance and operations. Mr. Slay joined the Airport in 1984 as Airport Maintenance Manager and had served in that position until February 2000.

Kenneth L. Below, the Assistant Director for Finance and Accounting, is the chief fiscal officer and has responsibility for the financial planning, management and contract administration functions at the Airport. Mr. Below has served in this capacity since December 1994. Prior to joining the Airport, he was employed by Martin Marietta for ten years.

Rich Bradley, the Chief Engineer for Planning and Engineering, is currently performing the duties of the Assistant Director for Engineering, and is responsible for the planning and design of the Airport's capital improvement projects. Mr. Bradley has held the position of Chief Engineer for Planning and Engineering since joining the Airport in July 2001. Prior to joining the Airport, he held several engineering positions in the City's Board of Public Service from 1988 to 2001.

Jack Thomas is the Assistant Director for the Disadvantaged Business Enterprise (D.B.E.) Program. Mr. Thomas' responsibilities include the certification of minority and women-owned entities, monitoring compliance with the City's business utilization goals, and enforcing the City's Living Wage Ordinance on all contracts. Mr. Thomas has held a variety of management posts during his 26-year tenure with the City of St. Louis.

The Assistant Director for Planning and Development position currently is vacant.

### **Airport Employees**

For Fiscal Year 2007, the Airport has 544 allocated full-time employee positions and an additional 79 City firefighter personnel which are assigned to the Airport. Approximately 52.5% of these employees are represented by employee groups. These employee groups are not entitled to strike under Missouri law since the Airport, as a department of the City, is not subject to collective bargaining. Airport employees are covered by the City's pension plan. See **APPENDIX B – "Audited Financial Statements of the Airport"** for additional information on the pension plan.

## **CAPITAL IMPROVEMENT PROGRAMS AT THE AIRPORT**

### **General**

The Airport engages on an on-going basis in various programs to improve the facilities and operations of the Airport. The Airport's current improvement programs consist of (i) the Airport development program (the "Airport Development Program" or the "ADP"), (ii) the rolling five-year capital improvement program (the "5-year CIP") and (iii) the Part 150 Noise Mitigation Program. Such Airport improvement programs and the expected sources of financing for those programs are described below.

The ability of the City to finance the improvement programs at the Airport is subject to various factors, including, among others, the amount of Revenues generated by the Airport (including the ability of the Airport to include appropriate amounts of its capital expenditures in the rates and charges of airlines using the Airport), the availability of funds under federal and state programs and the ability of the City to issue Additional Bonds or other indebtedness for Airport purposes (including the City's ability to meet the test for the issuance of Additional Bonds under the Indenture and to comply with legal requirements relating to its incurrence of indebtedness, including the \$3.5 billion limitation set forth in the Voter Approval).

### **The Airport Development Program**

The Airport's current ADP includes plans for Airport development over a 20-year planning period, which is to be accomplished in phases.

The City completed the first phase of the ADP in April 2006 (herein referred to as "Phase 1 of the ADP"). The major element of Phase 1 of the ADP was the construction of a new parallel runway. Phase 1 of the ADP also included the acquisition of certain land adjacent to the Airport for the purpose of constructing the new runway and constructing certain improvements relating to the development of the new runway.

Phase 1 of the ADP was implemented over the eight-year period from FY 1999 through FY 2006 at a cost of \$1.1 billion. The City funded a portion of the costs of Phase 1 of the ADP from (1) proceeds of Bonds, (2) AIP grants under a Letter of Intent that was awarded to the City by the FAA in November 1998, (3) PFCs and (4) available funds in the ADF.

Phase 2 of the ADP provides for certain terminal improvements and the design and the construction of a new terminal. The Airport has placed the design and the construction of Phase 2 of the ADP on hold until it determines that passenger demand and circumstances warrant its reactivation.

### **The 5-year CIP**

The City prepares a rolling five-year capital improvement program. The Airport's current 5-year CIP consists largely of projects involving maintenance, refurbishment and modernization of existing Airport facilities and infrastructure planned for Fiscal Years 2006 through 2010. Pursuant to the Use Agreements, the Signatory Airlines pre-approved all of the projects included in the current 5-year CIP.

The total cost of the current 5-year CIP is estimated at \$153 million. The City expects to finance the cost of the 5-year CIP largely with equity resources—AIP grants, PFC revenues and ADF moneys. Since many of the 5-year CIP projects are eligible for 75% AIP funding, the City anticipates that it will receive the total eligible AIP funding for all such projects. The City also anticipates using \$44 million of



ADF funds to be provided in part from the existing ADF balance and in part from anticipated flows into the ADF from future Net Revenues and other sources.

To complete the funding of the current 5-year CIP, the City may issue up to \$25 million of Additional Bonds. This requirement could be reduced or eliminated depending upon (1) the actual cost and timing of projects in the 5-year CIP and (2) the potential for using additional PFC and ADF resources for the 5-year CIP, if and as such funds are available. If additional Bond financing is required, the City intends to finance those projects initially through its Airport commercial paper notes program and refund the commercial paper notes with Additional Bonds once bids have been taken and actual project costs are known.

The City is considering undertaking a comprehensive terminal modernization program. Although the current 5-year CIP includes approximately \$36.7 million for terminal upgrades and renovations, the terminal modernization program now being considered may require funding that is greater than the amount provided for in the current 5-year CIP. If and when the City decides to move forward with a comprehensive terminal program, equity resources such as PFCs are expected to be dedicated to the project in an effort to reduce the impact on airline fees and charges.

The City also anticipates undertaking two security projects in the future: (i) a terminal explosives detection systems ("EDS") Long-Term Baggage Screening project; and (ii) an airfield Surveillance Detection System ("SDS") project. The Use Agreements allow the City to undertake and recover the cost of the terminal EDS Long-Term Baggage Screening project, currently estimated at \$95 million, without seeking a review by the Participating Airlines, but only if no less than 75% of the total cost of the project is funded with federal grants. The total cost of the airfield SDS project is estimated at \$35 million; however, the current 5-year CIP only includes approximately \$3.5 million in funding for the planning and design of the project. If the City decides to proceed with the airfield SDS project and recover its costs through airline rates, fees and charges, it will need to seek further review by the Participating Airlines.

Since 1997, the Airport has undertaken several capital improvement projects totaling \$235 million, of which approximately \$195 million has been completed and placed in service. In addition, since 2002, the City has undertaken several security-related projects intended to respond to federal security requirements imposed on airports as a result of the Events of September 11, 2001, including structural modifications to the West Terminal and East Terminal garages and terminal buildings, planning and design of improvements to accommodate in-line EDS in terminal buildings, upgrading the security checkpoints in the West and the East Terminals and perimeter fence improvements. The total cost of these security-related projects is estimated at \$21 million. The City has received three AIP grants aggregating \$16.2 million to fund a portion of these projects. Approximately \$14 million of the security-related projects has been completed and placed in service, including renovations of the Concourse C and Concourse D security checkpoints.

### **Part 150 Noise Mitigation Program**

The City has been conducting a Part 150 Noise Mitigation Program (the "Part 150 Program") for the past 18 years. The program is based on recommendations set forth in a Part 150 Study that was completed in 1987 and a subsequent Part 150 Update that was completed in 1997. Through December 31, 2005, the City had expended, encumbered or committed approximately \$265.5 million for various noise mitigation measures, including (1) property acquisition, (2) purchase of aviation easements, (3) acoustical treatment of schools, (4) a pilot sound insulation program, (5) procurement of a noise management (monitoring) system, and (6) the relocation of Berkeley High School Complex from the northeast quadrant of the Airport to an off-airport site. The City expects to commit an additional \$23.5

million for the residential sound insulation over the next several years, bringing the total cost of the program to \$289 million.

The Part 150 Program has been funded with prior (pre-1997) Bonds, AIP grants-in-aid, PFC resources, and the ADF. The City expects to complete the funding of the Part 150 Program with anticipated future AIP discretionary grants, matching funds to be provided from currently approved PFC resources and, if necessary, moneys in the ADF. The timing of the balance of the Part 150 program will depend, in part, on the availability of such grants. The City currently does not anticipate using any Bond proceeds to complete the funding of the Part 150 Program.

As a result of the opening of the new runway in April 2006, the City plans to update the Part 150 Study during 2007 and may undertake additional noise mitigation measures based on the recommendations of that study.

## AIRPORT FINANCIAL INFORMATION

### Revenues and Expenses

The financial statements of the Airport for the Fiscal Years ended June 30, 2006 and June 30, 2005 included in **APPENDIX B - "Audited Financial Statements of the Airport"** to this Official Statement have been audited by KPMG LLP, independent auditors.

The following table sets forth the historical revenues and expenses and certain Bond-related data of the Airport for the five Fiscal Years ended June 30, 2006. Such information is based primarily upon the audited financial statements of the Airport for such Fiscal Years.

### LAMBERT-ST. LOUIS INTERNATIONAL AIRPORT Airport Revenues and Expenses and Certain Bond-Related Data (in thousands) (Fiscal Years Ended June 30)

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
GARB Revenues					
Air Carrier Fees	\$70,479	\$74,482	\$67,963	\$63,730	\$69,498
Concession Fees	33,318	32,335	30,533	30,321	33,881
Cargo/Other	7,663	13,477	13,071	8,864	8,553
Revenues					
TWA Lease	7,829	7,829	7,773	7,607	3,804
Charges					
Interest Income	<u>7,372</u>	<u>6,248</u>	<u>5,443</u>	<u>6,179</u>	<u>5,451</u>
Total GARB	\$126,661	\$134,371	\$124,783	\$116,702	\$121,187
Revenues					
Pledged PFC	<u>21,894</u>	<u>18,766</u>	<u>18,766</u>	<u>18,766</u>	<u>18,493</u>
Revenues					
Total	\$148,555	\$153,138	\$143,549	\$135,468	\$139,680
Revenues					
Operation and	<u>68,387</u>	<u>75,576</u>	<u>67,612</u>	<u>67,640</u>	<u>69,219</u>
Maintenance					
Expenses					
Net Revenues	\$80,168	\$77,562	\$75,937	\$67,828	\$70,461
Aggregate Annual					
Debt Service on					
Outstanding					
Bonds	62,228	59,801	59,427	47,133	47,342
Debt Service	1.29	1.30	1.28	1.44	1.49
Coverage					

## Management Discussion of Financial Information

*GARB Revenues.* GARB Revenues for the Fiscal Year ended June 30, 2006, were \$121.2 million, which represents an increase of \$4.5 million or 3.8% compared to the Fiscal Year ended June 30, 2005. The increase is attributed to increases in airline landing fee revenues, which totaled approximately \$69.5 million, and concession revenues, which totaled approximately \$33.9 million and represented 29.3% of GARB Revenues in the Fiscal Year ended June 30, 2006.

*PFC Revenues, Including Pledged PFC Revenues.* The Airport collected a total of \$31.9 million in PFC Revenues (including interest earnings) during the Fiscal Year ended June 30, 2006, of which \$18.5 million constituted Pledged PFC Revenues, and are therefore included in Revenues. The current PFC rate is \$4.50 per passenger, as increased from \$3.00 in December 2001. The Airport has FAA approval to collect and use approximately \$1.3 billion in PFC Revenues through March 2017. As described above, only a portion of the PFC Revenues constitutes Revenues and is pledged under the Indenture. The portion of PFC Revenues that constitute Pledged PFC Revenues is an amount equal to 125% of the Debt Service allocable to projects approved for PFC funding.

*Total Revenues.* The total amount of Revenues pledged pursuant to the Indenture for Fiscal Year ended June 30, 2006, is \$139.7 million, consisting of \$121.2 million in GARB Revenues and \$18.5 million in Pledged PFC Revenues.

*Operation and Maintenance Expenses.* Operation and maintenance expenses for the Fiscal Year ended June 30, 2006, were \$69.2 million, which represents an increase of \$1.6 million or approximately 2.4% compared to the Fiscal Year ended June 30, 2005. The increase is primarily due to an increase in personnel expense and contractual services, higher utility costs and the commencement of expenses related to the operation and maintenance of the new runway.

*Net Revenues.* The Airport's Net Revenues for the Fiscal Year ended June 30, 2006, were \$70.5 million, which represents an increase of \$2.6 million or approximately 3.9% compared to Fiscal Year ended June 30, 2005. The increase in Net Revenue is primarily due to an increase in GARB Revenues, resulting from higher landing fees and concession revenues, reduced by the higher operation and maintenance expenses.

## **FACTORS AFFECTING THE AIRPORT AND THE AIR CARRIER INDUSTRY**

### **General**

The City's ability to collect Revenues may be affected by the ability of the airlines operating at the Airport to meet their respective obligations under the Use Agreements, the Operating Agreements and other arrangements. In addition, the level of aviation activity at the Airport can have a material impact on the amount of Revenues and PFC Revenues of the Airport. The amount of the PFC Revenues is based upon the number of enplanements at the Airport, thus, any decrease in enplanement levels whether due to a general decrease in aviation activity nationwide or a decrease in aviation activity at the Airport specifically, will cause a decrease in the amount of the PFC Revenues received by the Airport. The amount of moneys to be deposited into the Revenue Fund in any given month is also dependent upon (1) payment of amounts received from air carriers under the Use Agreements, the Operating Agreements or other arrangements, and (2) the level of concession and non-air carrier revenues, which is dependent upon activity at the Airport. Amounts available for deposit in the Revenue Fund could be adversely affected by delays or defaults in the payments of rates and charges by the air carriers at the Airport.

The derivation of Revenues from the operation of the Airport depends on various factors, many of which are not subject to the control of the Airport. Revenues may be affected by the ability of the airlines serving the Airport to meet their respective obligations under the Use Agreements and the Operating Agreements. The revenues of the airlines serving the Airport may be materially affected by many factors including without limitation, the following: declining air travel demand; service and cost competition; mergers; the availability and cost of fuel and other necessary supplies; high fixed costs; high capital requirements; the cost and availability of financing; technological changes; national and international disasters and hostilities; the cost and availability of employees; strikes and other employee disruptions; the maintenance and replacement requirements of aircraft; the availability of routes and slots at various airports; litigation liability; regulation by the federal government; environmental risks and regulations; noise abatement concerns and regulation; deregulation; federal and state bankruptcy and insolvency laws; acts of war, terrorism and other risks.

### **National and International Economic and Political Conditions**

Historically, air carrier passenger traffic nationwide has correlated closely with the state of the United States economy and levels of real disposable income. Sustained future growth in domestic air carrier passenger traffic will depend largely on the ability of the nation to sustain economic growth.

As international trade and air travel have increased, international economics, currency exchange rates, trade balances, political relationships, and conflicts within and between foreign countries have become important influences on passenger traffic at major United States airports. Aviation security precautions and safety concerns arising from international political conflicts also can affect air carrier travel demand.

The Events of September 11, 2001, fundamentally altered industry dynamics and passenger travel patterns. See "**Aviation Security Requirements**" and "**Revenues from Air Carriers**" below.

### **Aviation Security Requirements**

In response to the Events of September 11, 2001, the FAA instituted several security and safety measures for all U.S. airports, including enhancing the search and security checks and prohibiting unticketed persons beyond security checkpoints.

On November 19, 2001, the Aviation and Transportation Security Act (the "Aviation Security Act") was enacted. The Aviation Security Act, as amended, created the Department of Homeland Security ("DHS") and the Transportation Security Administration, and provided for the federalization of airport security, which at the Airport took place in September 2002. The Aviation Security Act permits the deployment of air marshals on all flights and requires deployment of air marshals on all "high risk" flights. The Aviation Security Act also requires that sufficient EDS be deployed at airports in the United States to screen all checked baggage. The airlines and the federal government are largely responsible for the cost of implementing the new security measures.

The Airport cannot predict the likelihood of the occurrence of future incidents similar to the Events of September 11, 2001, the likelihood of future air transportation disruptions or the impact on the Airport or the airlines from such incidents or disruptions.

### **Revenues from Air Carriers**

Historically, the airline industry's results have corresponded with the performance of the economy. Air carrier fares have an important effect on passenger demand, particularly for relatively short trips where the automobile or other travel modes are alternatives and for price-sensitive "discretionary" travel, such as vacation travel. Airfares are influenced by air carrier operating costs and debt burden, passenger demand, capacity and yield management, market presence and competition.

Air travel demand and airline revenues dropped precipitously as a result of the Events of September 11, 2001. The stringent security processing implemented at airports and a sluggish economic recovery that followed the Events of September 11, 2001, inhibited recovery of air travel demand and caused a further drop in airline revenues. Most major U.S. airlines filed for bankruptcy protection. Faced with dampened air travel demand, an evolving business climate and growing competition from low-cost, low-fare carriers, airlines reduced schedules, simplified fleets, deferred new aircraft delivery, transferred routes to regional partners, reduced and/or eliminated service to unprofitable markets, implemented pay cuts and reduced workforces and introduced innovations in passenger service, including the use of the internet and self-service kiosks.

Passenger traffic began to recover in 2003 and by 2004, U.S. airline passenger enplanements and airline operating revenues returned to the pre-September 11, 2001, levels. According to the Air Transportation Association, in 2005, U.S. airline passenger enplanements and airline operating revenues exceeded the pre-September 11, 2001, levels by 10.9% and 15.2%, respectively. Nonetheless, several major airlines continue to experience financial difficulties, with two airlines, Delta Airlines and Northwest Airlines, remaining in bankruptcy.

### **Air Carrier Service and Routes**

While passenger demand at an airport depends on the population and the economy of the region served, air carrier service and the number of passengers enplaned also depend on the route networks of the air carriers serving the airport. Domestic air carriers are free to enter or leave individual air traffic markets, and to increase or decrease service at will. Most major air carriers have developed "hub-and-spoke" route networks as a means of increasing their service frequencies, passenger volumes, and profitability.

## **Low-cost Carriers and Low-fare Divisions of Legacy Carriers**

In recent years, low-cost carriers have accounted for an increasing share of the domestic U.S. passenger market at the expense of the legacy carriers. Nationally, low-cost carrier service accounted for approximately 10% of passenger traffic in the early 1990's and increased to approximately 25% in 2006. Increased competition from low-cost carriers has placed additional pressure on the legacy carriers to institute further cost-cutting measures, reduce their fares to remain competitive and introduce their own low-fare divisions.

Low-cost carriers and low-fare divisions of legacy carriers have expanded service at the Airport as well. Currently, the Airport is served by three low-cost carriers: Southwest, Frontier and America West. Southwest is the largest low-cost carrier serving the Airport, with 22.9% of total Airport enplanements in the CY 2005. Frontier and America West accounted for enplanement shares of 1.3% and 1.5%, respectively, in CY 2005.

## **Aviation Fuel Costs**

According to the Air Transportation Association, fuel is the second largest cost component of airline operations after labor and continues to be an important and uncertain determinate of an air carrier's operating economics. Fluctuating fuel prices have caused corresponding fluctuations in airfares and air carrier operating results.

The median price of crude oil in the 10-year period from 1992 until 2001 was \$19.90 per barrel. The average price of crude oil in 2005 was \$46.47 per barrel and has averaged \$60.40 per barrel through the first eight months of 2006. Significant and prolonged increases in the cost of aviation fuel have had, and are likely to continue to have, an adverse impact on air transportation industry by reducing airline profitability and hampering airline financial recovery plans.

## **FINANCIAL CONDITION OF CERTAIN AIRLINES SERVING THE AIRPORT**

### **General**

The Airport derives its operating revenues primarily from landing and facility rental fees. The financial strength and stability of the airlines serving the Airport, among other factors, including the decisions of individual airlines regarding levels of service, affect the level of aviation activity at the Airport and Airport Revenues. For information regarding airline activity at the Airport, see **"CERTAIN INVESTMENT CONSIDERATIONS - Airline Activity at the Airport."**

The principal airlines serving the Airport are American Airlines, which is a subsidiary of AMR Corporation ("AMR"), and Southwest. For the twelve months ended June 30, 2006, American Airlines accounted for approximately 49.3% of the total airline rentals, fees and charges component of the Airport's operating revenue and approximately 52.5% of total enplanements, including regional affiliates. For the twelve months ended June 30, 2006, Southwest accounted for approximately 23.5% of the total airline rentals, fees and charges component of the Airport's operating revenue and approximately 23.4% of total enplanements. Certain limited information regarding the financial condition of AMR, Southwest and certain other airlines operating at the Airport is set forth below.

### **AMR**

According to the information filed with the SEC, AMR reported a net loss of \$761 million (\$4.74 per share) in 2004, and a net loss of \$861 million (\$5.21 per share) in 2005. AMR reported net

income of \$214 million (\$1.07 per share) for the nine months ended September 30, 2006, compared to a net loss of \$257 million (\$1.58 per share) for the nine months ended September 30, 2005. Such nine-month information is unaudited.

AMR and its affiliates substantially reduced their operations at the Airport in November 2003. See "**AIRPORT OPERATIONS**." No assurance can be given that AMR and its affiliates will continue their operations at their existing level at the Airport. Any further reduction in such operations could have a material adverse impact on aviation activity at the Airport and, consequently, on Airport Revenues.

*The above information is derived principally from, and is qualified by, the information contained in AMR's Form 10-K for the year ended December 31, 2005, and Form 10-Q for the quarter ended September 30, 2006, filed with the SEC. More complete information is contained in such filings. See "**Additional Information**" below.*

### **Southwest**

According to information filed with the SEC, Southwest reported net earnings of 313 million (\$0.38 per diluted share) in 2004 and net earnings of \$548 million (\$0.67 per diluted share) in 2005. In 2005, Southwest posted a profit for its 33rd consecutive year. Southwest reported net income of \$442 million (\$0.53 per diluted share) for the nine months ended September 30, 2006, compared to net income of \$414 million (\$0.52 per diluted share) for the nine months ended September 30, 2005. Such nine-month information is unaudited.

*The above information is derived principally from, and is qualified by, the information contained in Southwest's Form 10-K for the year ended December 31, 2005, and Form 10-Q for the quarter ended September 30, 2006, filed with the SEC. More complete information is contained in such filings. See "**Additional Information**" below.*

### **Certain Other Airlines**

UAL Corporation ("UAL") and certain of its United States subsidiaries, including United Airlines, filed for Chapter 11 bankruptcy protection on December 9, 2002. UAL emerged from bankruptcy protection in February 2006. In 2005, UAL had a 1.8% market share at the Airport.

US Airways Group and certain of its subsidiaries filed their second voluntary petitions for relief under Chapter 11 of the Bankruptcy Code in two years on September 12, 2004. On September 27, 2005, US Airways Group Inc. and America West Holding Corp. merged and US Airways exited from bankruptcy. In 2005, US Airways (including its regional affiliates) had a 0.9% market share at the Airport.

Delta Airlines filed for bankruptcy protection on September 14, 2005. In 2005, Delta had a 2.3% market share at the Airport. In November 2006, US Airways made a proposal to merge with Delta Airlines. The proposed merger would create one of the world's largest airlines which would operate under the Delta name. The City cannot predict whether the proposed merger will occur, or the impact, if any, of the proposed merger on the operations of US Airways or Delta Airlines at the Airport.

Northwest Airlines also filed for bankruptcy protection on September 14, 2005. In 2005, Northwest had a 3.8% market share at the Airport.



**There can be no assurance that any of the airlines currently in bankruptcy will adopt a plan of reorganization and emerge from bankruptcy, or that any such airline will continue to operate at the Airport or at its current level of operation; nor can there be any assurance that any airline operating at the Airport is not incurring or will not incur financial difficulties affecting its level of operations at the Airport or its ability to continue to operate as a viable airline.**

### **Additional Information**

Most of the Signatory Airlines, including American Airlines, Southwest, Northwest Airlines, Delta Airlines and United Airlines (or their parent corporations), and certain other air carriers operating at the Airport (or their parent corporations), are subject to reporting requirements of the Exchange Act, and, in accordance therewith, file reports and other information with the SEC. Certain information, including financial information, concerning each reporting Signatory Airline (or its parent corporation) is contained in such documents filed with the SEC. Such documents can be read and copied at the SEC's Public Reference Room located at 450 Fifth Street, N.W., Washington, D.C. Further information regarding the Public Reference Room can be obtained by calling the SEC at 1-800-SEC-0330. Documents filed with the SEC can also be obtained at the SEC's Internet website at <http://www.sec.gov>. In addition, each domestic Signatory Airline is required to file periodic reports of financial and operating statistics with the U.S. Department of Transportation. Such reports can be inspected at the following location: Office of Airline Information, Bureau of Transportation, Room 4201, 400 Seventh Street, S.W., Washington, D.C. 20590, and copies of such reports can be obtained from the U.S. Department of Transportation at prescribed rates.

**Neither the City nor the Underwriters undertake any responsibility for or make any representation as to the accuracy or completeness of (i) any reports and statements filed with the SEC or the U.S. Department of Transportation or (ii) any material contained on the SEC's website as described in the preceding paragraph, including, but not limited to, updates of information on the SEC website or links to other internet sites accessed through the SEC's website.**

### **CERTAIN INVESTMENT CONSIDERATIONS**

**The Series 2007A Bonds may not be suitable for all investors. Prospective purchasers of the Series 2007A Bonds should give careful consideration to the information set forth in this Official Statement, including, but not limited to, the matters referred to in the following summary.**

#### **Airline Activity at the Airport**

The Airport derives a substantial portion of its operating revenues from landing and facility rental fees. The financial strength and stability of the airlines using the Airport, and the number and the percentage of enplaned passengers carried by any one airline, together with numerous other factors, influence the level of aviation activity at the Airport. In addition, individual airline decisions regarding level of service, particularly hubbing activity at the Airport, can affect total enplanements.

American Airlines (including its affiliates) is the dominant carrier at the Airport, accounting for approximately 49.3% the total airline rentals, fees and charges component of the operating revenue and approximately 52.5% of total enplanements at the Airport in the twelve months ended June 30, 2006. In recent years, AMR experienced significant losses, as a result of which it reduced its operating schedule.

No assurances can be given that AMR will continue its operations at the Airport or that, if it discontinues or reduces such operations, its current level of activity will be replaced by other carriers. See "**AIRPORT OPERATIONS.**"

Southwest is the second largest carrier at the Airport, accounting for approximately 23.5% of the total airline rentals, fees and charges component of the operating revenue and 23.4% of total enplanements at the Airport in the twelve months ended June 30, 2006. Although Southwest has been adversely affected by some of the same economic pressures facing other airlines, through September 30, 2006, it has continued to report a profit. No assurances can be given that Southwest will continue to operate at its current level or that, if it reduces or discontinues its operations, its current level of activity will be replaced by other carriers.

For information regarding the financial condition of American Airlines and Southwest, see "**FINANCIAL CONDITION OF CERTAIN AIRLINES SERVING THE AIRPORT.**"

### **Airline Industry Factors**

The Revenues of the Airport are affected substantially by the economic health of the airline industry and the airlines serving the Airport. Some factors that may materially affect the Airport and the airlines include, but are not limited to, growth of population and the economic health of the region and nation, airline service and route networks, national and international economic and political conditions, changes in demand for air travel, service and cost competition, mergers, the availability and cost of aviation fuel and other necessary supplies, levels of air fares, fixed costs and capital requirements, the cost and availability of financing, the capacity of the national air traffic control system, national and international disasters and hostilities, the cost and availability of employees, labor relations within the airline industry, regulation by the federal government, environmental risks and regulations, noise abatement concerns and regulation, the financial health and viability of the airline industry, bankruptcy and insolvency laws, acts of war or terrorism and other risks. Many airlines, as a result of these and other factors, have operated at a loss in the past and many have filed for bankruptcy, ceased operations and/or merged with other airlines. Historically, the financial performance of the airline industry has correlated generally with the strength of the national economy. See "**FACTORS AFFECTING THE AIR CARRIER INDUSTRY – General**" and "**FINANCIAL CONDITION OF CERTAIN AIRLINES SERVING THE AIRPORT.**"

### **Certain Factors Affecting the Airport**

Enplanements at the Airport, collections of PFCs and the receipt of Revenues have been adversely affected and may continue to be negatively affected by restrictions on the Airport and the financial condition of the air travel industry. Like many airport operators, the Airport has experienced increased operating costs due to compliance with federally mandated and other security and operating changes. In addition, the FAA may require further enhanced security measures and impose additional restrictions on the Airport, which may affect future Airport results. The City cannot predict the likelihood of the occurrence of future incidents similar to the Events of September 11, 2001, the likelihood of future air transportation disruptions or the impact on the Airport or the airlines from such incidents or disruptions. See "**FACTORS AFFECTING THE AIR CARRIER INDUSTRY.**"

### **Regulations and Restrictions Affecting the Airport**

The operations of the Airport and its ability to generate revenues are affected by a variety of legislative, legal, contractual and practical restrictions. These include, without limitation, limitations imposed by the Use Agreements and the Operating Agreements, and by extensive federal regulations

applicable to all airports. The following summarizes some of the applicable regulations and restrictions:

### ***Restrictions as a Result of the Events of September 11, 2001***

The federal government has imposed enhanced security restrictions applicable to all airports in the United States. Such security enhancements have resulted in additional costs to the Airport, caused delays to travelers and have discouraged air travel by some members of the public. See **"FACTORS AFFECTING THE AIR CARRIER INDUSTRY – Aviation Security Requirements."**

### ***Federal Funding Regulations***

The FAA has the power to terminate the authority to impose PFCs if the City's PFC revenues are not used for approved projects, if project implementation does not commence within the time periods specified in the FAA's regulations or if the City otherwise violates FAA regulations. The City's plan of funding for the ADP, the 5-year CIP and the Part 150 Program is premised on certain assumptions with respect to the timing and amounts of the City's PFC applications, and the availability of PFCs to fund PFC-Eligible portions of certain of those projects. In the event that amounts collected through PFCs are lower than expected, the City may elect to delay certain projects or to seek alternative sources of funding, including the issuance of Additional Bonds.

### **Expiration and Possible Termination of Use Agreements**

Pursuant to the Use Agreements, each Signatory Airline is required to pay certain rates and charges for its use of the Airport. The existing Use Agreements expire on June 30, 2011. The City and the Signatory Airlines have the right, under certain circumstances, to terminate such agreements prior to their expiration. See **APPENDIX D - "Summary of Certain Provisions of the Use Agreements and Operating Agreements."**

The costs of certain capital expenditures by the Airport may be included in rental and landing fees payable under the Use Agreements unless such projects are opposed by an MII of the Participating Airlines. See **"CERTAIN AGREEMENTS FOR USE OF THE AIRPORT'S FACILITIES."**

### **Effect of Bankruptcy on the Use Agreements**

In the event of bankruptcy proceedings involving one or more of the Signatory Airlines, the debtor airline or its bankruptcy trustee must determine within a time period determined by the court whether to assume or reject the applicable Use Agreement. However, bankruptcy courts are courts of equity and can grant exceptions to these statutory limitations. In the event of assumption, the debtor airline would be required to cure any prior defaults and to provide adequate assurance of future performance under the relevant document. Rejection of a Use Agreement by any Signatory Airline would give rise to an unsecured claim of the City for damages, the amount of which may be limited by the Bankruptcy Code. In general, under the Use Agreements, the City is not permitted to allocate to other Signatory Airlines the rents, fees and charges for facilities surrendered by Signatory Airlines pursuant to a rejection in bankruptcy.

If the bankruptcy of one or more Signatory Airlines were to occur, however, there can be no assurance that the remaining Signatory Airlines would be able, individually or collectively, to meet their obligations under the Use Agreements. Whether or not a Use Agreement is assumed or rejected

in a bankruptcy proceeding, it is not possible to predict the subsequent level of utilization of the gates leased under such agreement. Decreased utilization of gates could have a material adverse effect on Airport operations, as well as on Revenues and ultimately on the cost to the airlines of operating at an Airport. See **APPENDIX D – "Summary of Certain Provisions of the Use Agreements and Operating Agreements."**

Delta Airlines and Northwest Airlines continue to operate under bankruptcy protection at the Airport.

### **Limitations on Bondholders' Remedies**

The occurrence of an Event of Default under the Indenture, including a failure to make a payment of principal of or interest on the Series 2007A Bonds, may not result in an automatic acceleration of payment of the Series 2007A Bonds. As a result, the Airport may be able to continue indefinitely collecting Revenues and applying them to the operation of the Airport, even if an Event of Default has occurred and no payments are being made on the Series 2007A Bonds. See **"THE SERIES 2007A BONDS - Matters Relating to Enforceability"** and **"–Acceleration."**

### **Costs of Capital Improvement Programs and Schedule**

The estimated costs of, and the projected schedule for, the projects included in the 5-year CIP, the Part 150 Noise Mitigation Program and the ADP depend on various sources of funding, including Additional Bonds, PFCs and federal grants, and are subject to a number of uncertainties. The ability of the City to complete these projects may be adversely affected by various factors including: (i) estimating errors; (ii) design and engineering errors; (iii) changes to the scope of the projects; (iv) delays in contract awards; (v) material and/or labor shortages; (vi) unforeseen site conditions; (vii) adverse weather conditions; (viii) contractor defaults; (ix) labor disputes; (x) unanticipated levels of inflation; and (xi) environmental issues, including environmental approvals that the City has not obtained at this time. A delay in the completion of certain projects could delay the collection of Revenues in respect of such projects, increase costs for such projects, and may cause the rescheduling of other projects. Any schedule delays or cost increases could result in the need to issue Additional Bonds and may result in increased costs per enplaned passenger to the airlines serving the Airport, that may place the Airport at a competitive disadvantage to other airports. See **"CAPITAL IMPROVEMENT PROGRAMS AT THE AIRPORT."**

### **Forward Looking Statements**

This Official Statement, including the information contained under the captions **"INTRODUCTION," "THE SERIES 2007A BONDS,"** and **"CAPITAL IMPROVEMENT PROGRAMS AT THE AIRPORT"**, contains statements relating to future results that are "forward looking statements" as described in the Private Securities Litigation Reform Act of 1995. When used in this Official Statement, the words "estimate," "projection," "intend," "expect," and similar expressions identify forward looking statements. Such statements are subject to risks and uncertainties that could cause actual results to differ materially from those contemplated in such forward looking statements. Among the factors that may cause projected revenues and expenditures to be materially different from those anticipated include an inability to incur debt at assumed rates, construction delays, increases in construction costs, general economic downturns, factors affecting the airline industry in general, changes in the levels of operations at the Airport, federal legislation and/or regulations, acts of terrorism and regulatory and other restrictions, including, but not limited to, those that may affect the ability to undertake the timing or the costs of certain projects. Any projection is subject to such uncertainties.

Therefore, there are likely to be differences between projections and actual results, and those differences may be material.

## **REVIEW OF THE AIRPORT CONSULTANT**

The City has retained Unison-Maximus, Inc. to serve as the airport consultant (the "Airport Consultant") in connection with the issuance of the Series 2007A Bonds and the Series 2007B Bonds. In that capacity, the Airport Consultant has (i) analyzed the ability of the City to meet its financial obligations related to the Series 2007A Bonds and the Series 2007B Bonds through the Fiscal Year 2011 and (ii) prepared a review of the Airport's operating revenues, expenses and air traffic activity, dated January 10, 2007 (the "Review of the Airport Consultant"), which is attached hereto as **APPENDIX A**.

### **Projected Airport Revenues**

The following tables present (i) the actual Airport Revenues for Fiscal Year 2006 and the Airport Consultant's projections for Fiscal Years 2007 through 2011 and (ii) the Airport Consultant's projections of Signatory Airline revenues, cost per enplaned passenger and rates for Fiscal Years 2007 through 2011.

Total Airport Revenues are projected to increase from \$139.7 million in Fiscal Year 2006 to \$183.8 million in Fiscal Year 2011 or at an average annual growth rate of 5.6%. Revenues are projected to be sufficient to pay Operation and Maintenance Expenses and meet all of the other funding requirements of the Indenture in each year of the projection period, Fiscal Year 2007 through Fiscal Year 2011. Net Revenues are projected to exceed 1.25 times Aggregate Adjusted Debt Service in Fiscal Years 2007 through 2011.

The average Signatory Airline cost per enplaned passenger is projected to increase from \$9.99 in Fiscal Year 2007 to \$10.89 in Fiscal Year 2011. The Signatory Airline landing fee rate is projected to increase from \$5.46 in Fiscal Year 2007 to \$6.23 in Fiscal Year 2011.

In addition, based on its knowledge of comparable airports and its experience in providing financial consulting services to a variety of airports, the Airport Consultant believes the projected airline costs per enplaned passenger at the Airport, while considerably higher than those recorded in the years prior to the reduction of American Airlines' operations at the Airport, are reasonable when compared to other major airports that have completed or are currently implementing major capital improvement programs.

The financial projections presented in the Review of the Airport Consultant are based on information and assumptions that have been provided by Airport management, or developed by the Airport Consultant and confirmed by Airport management. Based upon its review, the Airport Consultant believes that the information is accurate and that the assumptions provide a reasonable basis for the projections. However, some variations from the projections is inevitable due to unforeseen events and circumstances, and these variations may be material. The Review of the Airport Consultant should be considered in its entirety for an understanding of the projections and the underlying assumptions. See **APPENDIX A – "Review of the Airport Consultant."**

**PROJECTED AIRPORT REVENUES**  
**LAMBERT-ST. LOUIS INTERNATIONAL AIRPORT**  
For Fiscal Years ending June 30  
(in thousands)

<b>Airport Revenues</b>	<b>Avg. Annual Growth Rate 2006-2011</b>	<b>Actual 2006</b>	<b>2007</b>	<b>2008</b>	<b>Projected 2009</b>	<b>2010</b>	<b>2011</b>
Signatory Airlines							
Airfield Landing Fees	8.1%	\$42,083	\$49,239	\$53,465	\$55,706	\$58,685	\$62,134
Terminal Rents	3.6%	19,547	20,767	20,907	21,596	22,700	23,320
Loading Bridge Charges	-	-	-	70	70	70	70
Total	6.8%	\$61,630	\$70,006	\$74,443	\$77,371	\$81,455	\$85,523
Concession Fees							
Terminal Concessions	8.5%	\$7,320	\$8,962	\$9,429	\$9,935	\$10,472	\$11,012
Public Parking	7.4%	12,981	14,755	15,536	16,000	18,079	18,540
Car Rentals	5.1%	10,971	11,144	11,811	12,535	13,304	14,080
Space Rental	-5.2%	722	494	496	510	539	554
In-Flight Catering	3.0%	489	504	519	535	551	568
Other	0.3%	1,398	1,399	1,404	1,409	1,415	1,421
Total	6.4%	\$33,881	\$37,258	\$39,195	\$40,924	\$44,360	\$46,176
Other							
Non-Signatory Landing Fees	-0.4%	\$6,042	\$4,669	\$5,135	\$5,336	\$5,609	\$5,931
Non-Signatory Airlines-Terminal	-1.8%	667	610	610	610	610	610
Total	-0.5%	\$6,709	\$5,279	\$5,745	\$5,946	\$6,219	\$6,541
Airline Revenue Abatement	-	-	\$12,000	\$10,000	\$8,000	\$6,000	\$4,000
Cargo	-4.3%	\$1,365	1,005	1,013	1,021	1,029	1,094
Hangars and Other Buildings	-13.1%	356	360	264	167	172	177
Tenant Improvement Surcharge	8.8%	1,159	1,768	1,768	1,768	1,768	1,768
Employee Lot	-100.0%	141	-	-	-	-	-
Other Miscellaneous	3.5%	6,690	6,826	7,213	7,554	7,761	7,948
Total Other	5.6%	\$16,420	\$27,238	\$26,002	\$24,456	\$22,949	\$21,528
TWA Asset Use Charges	-	\$3,804	-	-	-	-	-
Total Operating Revenue	5.8%	\$115,735	\$134,502	\$139,640	\$142,751	\$148,763	\$153,226
Interest Income	-1.7%	\$5,451	\$4,678	\$4,277	\$4,335	\$4,716	\$5,003
Total GARB Revenues	5.5%	\$121,186	\$139,180	\$143,916	\$147,086	\$153,480	\$158,229
PFC Pledged Revenue	6.7%	18,493	25,280	25,555	24,096	25,613	25,617
Total Revenues	5.6%	139,682	164,460	169,471	171,183	179,093	183,845

**SUMMARY OF SIGNATORY AIRLINE REVENUES, COST PER ENPLANED PASSENGER AND RATES**  
**LAMBERT-ST. LOUIS INTERNATIONAL AIRPORT**  
For Fiscal Years ending June 30  
(in thousands)

	<b>Projected</b>				
	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>
<b>SIGNATORY AIRLINE REVENUES</b>					
Landing Fees	\$49,239	\$53,465	\$55,706	\$58,685	\$62,134
Terminal Building Rentals					
West Terminal	\$15,028	\$15,082	\$15,538	\$16,469	\$16,957
East Terminal	5,739	5,825	6,058	6,230	6,362
	<u>\$20,767</u>	<u>\$20,907</u>	<u>\$21,596</u>	<u>\$22,700</u>	<u>\$23,320</u>
Loading Bridge Charges	-	\$70	\$70	\$70	\$70
<b>TOTAL SIGNATORY AIRLINE REVENUES -- BASIC RATES AND CHARGES</b>					
	\$70,006	\$74,443	\$77,371	\$81,455	\$85,523
Signatory airline enplaned passengers	7,011	7,201	7,419	7,645	7,855
<b>SIGNATORY AIRLINE COST PER ENPLANED PASSENGER</b>					
	<b>\$9.99</b>	<b>\$10.34</b>	<b>\$10.43</b>	<b>\$10.66</b>	<b>\$10.89</b>
<b>SIGNATORY AIRLINE RATES</b>					
Landing Fee Rate (per 1,000 pounds) <sup>1</sup>	<b>\$5.46</b>	<b>\$5.77</b>	<b>\$5.86</b>	<b>\$6.02</b>	<b>\$6.23</b>
Terminal Building Rental Rates					
West Terminal	<b>\$42.33</b>	<b>\$42.48</b>	<b>\$43.77</b>	<b>\$46.39</b>	<b>\$47.76</b>
East Terminal	<b>\$48.73</b>	<b>\$49.57</b>	<b>\$51.86</b>	<b>\$53.55</b>	<b>\$54.85</b>

<sup>1</sup> Landing fee rate assumes Participating Airlines will generate sufficient landed weight each year to receive rate mitigation as programmed.

## Debt Service Coverage

The following table shows the projection of Net Revenues and the calculation of debt service coverage for Fiscal Years 2007 through 2011.

**CALCULATION OF ANNUAL DEBT SERVICE COVERAGE  
LAMBERT-ST. LOUIS INTERNATIONAL AIRPORT  
For Fiscal Years ending June 30  
(in thousands)**

	<b>Projected</b>				
	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>
Total Revenues	\$164,460	\$169,471	\$171,183	\$179,093	\$183,845
less: Operation and Maintenance Expenses	80,654	83,543	86,864	90,322	93,975
Net Revenues	\$83,806	\$85,928	\$84,319	\$88,771	\$89,871
Debt Service Outstanding Bonds <sup>1,2</sup>	\$63,181	\$64,021	\$62,836	\$64,036	\$64,705
Future Bonds	-	-	-	-	2,144
	\$63,181	\$64,021	\$62,836	\$64,036	\$66,849
<b>Debt service coverage ratio</b>	<b>1.33</b>	<b>1.34</b>	<b>1.34</b>	<b>1.39</b>	<b>1.34</b>

<sup>1</sup> The FY 2007 debt service on Outstanding Bonds is reduced by \$3.8 million, which is the amount of the debt service reserve fund for the Series 1996 Bonds that will be offset against the final debt service payment.

<sup>2</sup> Based on information provided by Lehman Brothers for the Series 2007A Bonds and the Series 2007B Bonds as of January 9, 2007.



## **TAX MATTERS**

### **Federal Income Tax Consequences of Owning Series 2007A Bonds**

The Internal Revenue Code of 1986, as amended (the "Code"), imposes certain requirements that must be met subsequent to the issuance and delivery of the Series 2007A Bonds for interest thereon to be and remain excluded from gross income for federal income tax purposes. Noncompliance with such requirements could cause the interest on the Series 2007A Bonds to be included in gross income for federal income tax purposes retroactive to the date of issue of the Series 2007A Bonds. The City has covenanted in the Indenture and the Tax Certificate as to Arbitrage and the Provisions of Sections 141-150 of the Internal Revenue Code of 1986 (the "Tax Certificate") to comply with the applicable requirements of the Code in order to maintain the exclusion of the interest on the Series 2007A Bonds from gross income for federal income tax purposes pursuant to Section 103 of the Code. In addition, the City has made certain representations and certifications in the Indenture and the Tax Certificate. Co-Bond Counsel will not independently verify the accuracy of those representations and certifications.

In the opinion of Nixon Peabody LLP and the Hardwick Law Firm, LLC, Co-Bond Counsel, under existing law and assuming compliance with the aforementioned covenant, and the accuracy of the aforementioned representations and certifications of the City, interest on the Series 2007A Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Code. Co-Bond Counsel are also of the opinion that such interest is not treated as a preference item in calculating the alternative minimum tax imposed under the Code with respect to individuals and corporations. Interest on the Series 2007A Bonds is, however, included in the adjusted current earnings of certain corporations for purposes of computing the alternative minimum tax imposed on such corporations.

### **Original Issue Premium**

Other than the Discount Bonds (hereinafter defined), all of the Series 2007A Bonds are being offered at prices in excess of their principal amounts (collectively, the "Premium Bonds"). An initial purchaser with an initial adjusted basis in a Premium Bond in excess of its principal amount will have amortizable bond premium which is not deductible from gross income for federal income tax purposes. The amount of amortizable bond premium for a taxable year is determined actuarially on a constant interest rate basis over the term of each Premium Bond based on the purchaser's yield to maturity (or, in the case of Premium Bonds callable prior to their maturity, over the period to the call date, based on the purchaser's yield to the call date and giving effect to any call premium). For purposes of determining gain or loss on the sale or other disposition of a Premium Bond, an initial purchaser who acquires such obligation with an amortizable bond premium is required to decrease such purchaser's adjusted basis in such Premium Bond annually by the amount of amortizable bond premium for the taxable year. The amortization of bond premium may be taken into account as a reduction in the amount of tax-exempt income for purposes of determining various other tax consequences of owning such Bonds. Owners of the Premium Bonds are advised that they should consult with their own advisors with respect to the state and local tax consequences of owning such Premium Bonds.

### **Original Issue Discount**

Bond Counsel is further of the opinion that the difference between the principal amount of the Series 2007A Bonds maturing on July 1, 2019, July 1, 2024 and July 1, 2032 (collectively, the "Discount Bonds") and the initial offering price to the public (excluding bond houses, brokers or similar persons or organizations acting in the capacity of underwriters or wholesalers) at which price a substantial amount of

such Discount Bonds of the same maturity was sold constitutes original issue discount which is excluded from gross income for federal income tax purposes to the same extent as interest on the Series 2007A Bonds. Further, such original issue discount accrues actuarially on a constant interest rate basis over the term of each Discount Bond and the basis of each Discount Bond acquired at such initial offering price by an initial purchaser thereof will be increased by the amount of such accrued original issue discount. The accrual of original issue discount may be taken into account as an increase in the amount of tax-exempt income for purposes of determining various other tax consequences of owning the Discount Bonds, even though there will not be a corresponding cash payment. Owners of the Discount Bonds are advised that they should consult with their own advisors with respect to the state and local tax consequences of owning such Discount Bonds.

## **State Taxes**

Co-Bond Counsel are also of the opinion that, under existing law and assuming that interest on the Series 2007A Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Code, interest on the Series 2007A Bonds is excluded from Missouri taxable income for purposes of the personal income tax and corporate income tax imposed by the State of Missouri. Co-Bond Counsel expresses no opinion regarding the applicability with respect to the Series 2007A Bonds or the interest on the Series 2007A Bonds of the taxes imposed by the State of Missouri on financial institutions under Chapter 148 of the Revised Statutes of Missouri, as amended.

## **Other Federal Tax Matters**

Ownership of the Series 2007A Bonds may result in other federal tax consequences to certain taxpayers, including, without limitation, certain S corporations, foreign corporations with branches in the United States, property and casualty insurance companies, individuals receiving Social Security or Railroad Retirement benefits, individuals seeking to claim the earned income credit, and taxpayers (including banks, thrift institutions and other financial institutions) who may be deemed to have incurred or continued indebtedness to purchase or to carry the Series 2007A Bonds.

Commencing with interest paid in 2006, interest paid on tax-exempt obligations such as the Series 2007A Bonds is subject to information reporting to the Internal Revenue Service (the "IRS") in a manner similar to interest paid on taxable obligations. In addition, interest on the Series 2007A Bonds may be subject to backup withholding if such interest is paid to a registered owner that (a) fails to provide certain identifying information (such as the registered owner's taxpayer identification number) in the manner required by the IRS, or (b) has been identified by the IRS as being subject to backup withholding.

Bond Counsel is not rendering any opinion as to any federal tax matters other than those described under the caption "**Tax Matters**". Prospective investors, particularly those who may be subject to special rules described above, are advised to consult their own tax advisors regarding the federal tax consequences of owning and disposing of the Series 2007A Bonds, as well as any tax consequences arising under the laws of any state or other taxing jurisdiction.

## **Changes in Federal Tax Law and Post Issuance Events.**

From time to time proposals are introduced in Congress that, if enacted into law, could have an adverse impact on the potential benefits of the exclusion from gross income for federal income tax purposes of the interest on the Series 2007A Bonds, and thus on the economic value of the Series 2007A Bonds. This could result from reductions in federal income tax rates, changes in the structure of the federal income tax rates, changes in the structure of the federal income tax or its replacement with another type of tax, repeal of the exclusion of the interest on the Series 2007A Bonds from gross

income for such purposes, or otherwise. It is not possible to predict whether any legislation having an adverse impact on the tax treatment of Holders of the Series 2007A Bonds may be proposed or enacted.

Co-Bond Counsel has not undertaken to advise in the future whether any events after the date of issuance and delivery of the Series 2007A Bonds may affect the tax status of interest on the Series 2007A Bonds. Co-Bond Counsel expresses no opinion as to any federal, state or local tax law consequences with respect to the Series 2007A Bonds, or the interest thereon, if any action is taken with respect to the Series 2007A Bonds or the proceeds thereof upon the advice or approval of other counsel.

On the sale date for the Series 2007A Bonds, the City also has sold the Series 2007B Bonds. The exclusion from gross income of interest on the Series 2007A Bonds for federal income tax purposes may be adversely affected based on whether the City is in compliance with the applicable requirements for interest on the Series 2007B Bonds to be excluded from gross income for federal income tax purposes. The City has covenanted that it will take such action as may be necessary and within its control to ensure that the Series 2007B Bonds will continue to be obligations described in Section 103 of the Code.

## LITIGATION

There is no litigation pending or, to the best knowledge of the City, threatened that would restrain or enjoin the issuance or delivery of the Series 2007A Bonds, that questions the validity of the Series 2007A Bonds or the Indenture, concerns any proceedings of the City taken in connection therewith or the pledge or application of any Revenues provided for their payment, or that contests the power of the City with respect to the foregoing.

The City is a defendant in *Families for Asbestos Compliance, Testing and Safety v. The City of St. Louis, Missouri and City of St. Louis Airport Authority*, pending in the United States District Court for the Eastern District of Missouri (Civil Action No. 05-CV00719CJ). The not-for-profit group who filed this lawsuit on May 5, 2005, alleges that the City, as owner and operator of the Airport, violated the Clean Air Act and the Resource Conservation and Recovery Act when it performed "wet demolition" of approximately 300 residential structures under Phase 1 of the ADP. Plaintiff seeks injunctive and declaratory relief as well as civil penalties and recovery of its costs. The City believes that the suit is without merit and is vigorously defending the matter.

The City is also a defendant in *Firemen's Retirement System v. City of St. Louis, Francis Slay, James Shrewsbury and Darlene Green*, pending in the Missouri Supreme Court, Cause No. SC87977 (appeal of City of St. Louis Circuit Court, Cause No. 034-0266; transferred from the Missouri Court of Appeals, Eastern District, Cause No. 86921). The City's Fire Department provides fire protection for the Airport. Approximately 79 of the City's 710 firefighting positions are allocated to the Airport and the Airport Authority reimburses the City for the costs of these personnel. Plaintiff claims that the Board of Estimate and Apportionment of the City of St. Louis did not recommend the appropriation for the Firemen's Retirement System certified by the plaintiff, by and through its actuaries, for the Fiscal Year 2004 and 2005 City Budgets, which amounts the plaintiff claims are binding under City ordinance. The difference between the amounts recommended by the Board of Estimate and Apportionment and the amounts certified by the plaintiff was \$6.8 million for Fiscal Year 2004 and \$11.7 million for Fiscal Year 2005. In June 2005, the Circuit Court entered judgment for the Firemen's Retirement System, concluding that the Board of Estimate & Apportionment was required to recommend an appropriation as certified by the system's actuaries. Although the judgment contained no monetary amount, it is presumed that, if the decision is upheld on appeal, the entire unfunded total of \$18.5 million would be required. The City appealed the Circuit Court's decision to the Missouri Court of Appeals. The Missouri Court of Appeals

issued its decision on August 22, 2006, holding that the Board of Estimate and Apportionment does not have unlimited discretion to set the amount of the City's contribution to the Firemen's Retirement System, but rather is constrained to certify an amount determined to be necessary for the Firemen's Retirement System to remain actuarially sound and that the City's statutes and ordinances mandate that the City appropriate as the City's contribution to the Firemen's Retirement System the amount certified by the actuary and the board. Because of the general interest and importance of the issues involved in the case, the Missouri Court of Appeals transferred the case to the Supreme Court of Missouri.

The Firemen's Retirement System filed a suit identical to the preceding suit claiming the system was under funded for Fiscal Year 2006. *Firemen's Retirement System v. City of St. Louis, Francis Slay, James Shrewsbury and Darlene Green*, City of St. Louis Circuit Court, Cause No. 054-01780. Subsequently, the Firemen's Retirement System amended the lawsuit claiming it was under funded for Fiscal Year 2007 as well. The difference between the amount recommended by the Board of Estimate and Apportionment and the amount certified by the plaintiff was approximately \$13.7 million for Fiscal Year 2006 and approximately \$14 million for Fiscal Year 2007. This suit is currently stayed in the Circuit Court, pending a decision on the appeal of the judgment entered for Fiscal Years 2004 and 2005.

If the matter is decided in favor of the plaintiffs, the Airport Authority will pay its *pro rata* share of any final judgment to the Firemen's Retirement System that is attributable to the City's Airport fire protection personnel.

The Airport is subject to a variety of other suits and proceedings arising out of its ordinary course of operations, some of which may be adjudicated adversely. In the opinion of the City Counselor, there is no litigation, other than that set forth above, pending against the City not sufficiently covered by insurance which, if determined adversely, would have a material adverse effect on Airport operations, Revenues or Net Revenues.

## UNDERWRITING

Lehman Brothers, Inc., as the representative of itself, First Albany, Jackson Securities, JPMorgan Securities Inc. and Morgan Stanley & Co. Incorporated (collectively the "Underwriters"), has agreed to purchase the Series 2007A Bonds from the City at an aggregate purchase price equal to \$245,498,889.09 (which amount constitutes the aggregate principal amount of the Series 2007A Bonds, plus net original issue premium on the Series 2007A Bonds of \$15,797,801.40, less the Underwriters' discount on the Series 2007A Bonds of \$1,573,912.31).

The bond purchase agreement between the Underwriters and the City (the "Bond Purchase Agreement") provides that the Underwriters will purchase all of the Series 2007A Bonds, if any are purchased, and that the obligation to make such purchase is subject to certain terms and conditions set forth in the Bond Purchase Agreement, the approval of certain legal matters by counsel and certain other conditions.

The initial public offering prices of the Series 2007A Bonds may be changed from time to time by the Underwriters.

## INDEPENDENT PUBLIC ACCOUNTANTS

Included as **APPENDIX B** are the audited financial statements of the Airport as of June 30, 2006 and 2005 and for the years then ended, together with the report thereon of KPMG LLP, independent public accountants. This Official Statement does not include financial information on the Airport after June 30, 2006.

## **CO-FINANCIAL ADVISORS**

Siebert Brandford Shank & Co., LLC and Gardner, Underwood & Bacon-Illinois, LLC served as co-financial advisors to the City with respect to the sale of the Series 2007A Bonds. The Co-Financial Advisors assisted in the preparation of this Official Statement and in other matters relating to the planning, structuring and issuance of the Series 2007A Bonds and provided other advice. The Co-Financial Advisors have not independently verified the factual information contained in this Official Statement, but have relied upon information supplied by the City and other sources who have certified that such information contains no material misstatement or omission.

## **INVESTMENT ADVISOR**

Columbia Capital Management LLC ("Columbia Capital") serves as an investment advisor to the Treasurer of the City. Columbia Capital assisted in the planning, investment and allocation of certain accounts authorized by the Indenture. Columbia Capital also provided other advice related to the investment of proceeds of the Series 2007A Bonds and other funds invested in connection with the Indenture. Columbia Capital has not participated in the preparation, drafting or review of this Official Statement.

## **VERIFICATION AGENT**

Grant Thornton, an independent accounting firm, will verify from the information provided to them, the mathematical accuracy of (a) the computations contained in the schedules provided to determine that the anticipated receipts from the securities and cash deposits, to be held in escrow, will be sufficient to pay, when due, the principal of, interest and call premium on the Refunded Bonds, and (b) the computations of yield on both such securities and the Series 2007A Bonds contained in the schedules used by Co-Bond Counsel in their determination that the interest on the Series 2007A Bonds is exempt from taxation. Grant Thornton will restrict its procedures to verifying the arithmetical accuracy of the computations in the schedules provided to them and will not conduct any study or evaluation of the assumptions and information upon which the computations are based and, accordingly, will not express an opinion on the data used, the reasonableness of the assumptions, or the achievability of future events.

## **AIRPORT CONSULTANT**

Unison-Maximus, Inc., Chicago, Illinois, has served as the Airport Consultant to the City with respect to the issuance of the Series 2007A Bonds.

## **LEGAL MATTERS**

All legal matters incident to the authorization, issuance and sale of the Series 2007A Bonds are subject to the approval of Nixon Peabody LLP, New York, New York, and the Hardwick Law Firm, LLC, Kansas City, Missouri, Co-Bond Counsel, and certain other conditions. Certain legal matters will be passed upon for the City by the office of the City Counselor, and by Armstrong Teasdale LLP, St. Louis, Missouri, Special Counsel, and for the Underwriters by Orrick, Herrington & Sutcliffe LLP, Washington, D.C., and Saulsberry & Associates, LLC, St. Louis, Missouri. The form of the Co-Bond Counsel opinion is set forth in **APPENDIX F** attached hereto.

## CONTINUING DISCLOSURE

*A summary of the Continuing Disclosure Agreement (the "**Disclosure Agreement**") entered into by and between the City and the Trustee, as Dissemination Agent, is contained in **APPENDIX G**. All references herein to the Disclosure Agreement are qualified in their entirety by reference to such document. The Disclosure Agreement is available for inspection at the offices of the City.*

The City and the Trustee will enter into a Continuing Disclosure Agreement dated as of January 1, 2007, pursuant to which the City covenants for the benefit of holders and beneficial owners of the Series 2007A Bonds to provide (i) audited financial statements of the Airport and certain statistical and operating data relating to the City and the Airport by no later than 210 days following the end of the City's Fiscal Year (which currently ends on June 30 each year) (the "Annual Report"), commencing with the report for the Fiscal Year 2006, and (ii) notice of the occurrence of certain enumerated events, if material. The Annual Report will be filed by or on behalf of the City with each Nationally Recognized Municipal Securities Information Repository. The notices of material events will be filed by or on behalf of the City with the Municipal Securities Rulemaking Board. These covenants are being made in order to assist such Repository or the Underwriters in complying with the SEC Rule 15c2-12(b)(5) (the "Rule"). The City has never failed to comply in all material respects with any previous undertakings with regard to the Rule to provide annual reports or notices of material events.

In the event of a failure of the City or the Dissemination Agent to comply with any provision of the Continuing Disclosure Agreement, any beneficial owner of the Series 2007A Bonds may take such actions as may be necessary and appropriate, including seeking mandamus or specific performance by court order, to cause the City or the Dissemination Agent, as the case may be, to comply with its obligations under the Continuing Disclosure Agreement. A default under the Continuing Disclosure Agreement shall not be deemed an event of default under the Indenture or the Series 2007A Bonds, and the sole remedy under the Continuing Disclosure Agreement in the event of any failure of the City or the Dissemination Agent to comply with the Continuing Disclosure Agreement shall be an action to compel performance.

## RATINGS

Moody's Investors Service, Inc. ("Moody's"), Standard & Poor's Ratings Services ("S&P"), a division of The McGraw-Hill Companies, Inc., and Fitch Ratings, Inc. ("Fitch") have assigned ratings of "Aaa", "AAA" and "AAA", respectively, to the Series 2007A Bonds, with the understanding that upon delivery of the Series 2007A Bonds, the Bond Insurance Policy insuring the payment when due of principal of and interest on the Series 2007A Bonds will be issued by the Bond Insurer. The ratings assigned by Moody's, S&P and Fitch are based upon the claims paying ability of the Bond Insurer and are not based on the creditworthiness of the City. Moody's, S&P and Fitch have assigned the Series 2007A Bonds underlying ratings of "Baa1", "BBB+" and "BBB+", respectively.

These ratings should be evaluated independently. No application has been made to any other rating agency in order to obtain additional ratings on the Series 2007A Bonds. Such ratings reflect only the views of such organizations and any desired explanation of the significance of such ratings should be obtained from the rating agency furnishing the same, at the following addresses: Moody's Investors Service, Inc., 99 Church Street, New York, New York 10007, Standard & Poor's Ratings Services, 25 Broadway, New York, New York 10004 and Fitch Ratings, Inc., One State Street Plaza, New York, New York 10004. Generally, a rating agency bases its ratings on the information and materials furnished to it and on investigations, studies and assumptions of its own. There is no assurance such ratings will not be revised downward or withdrawn entirely by the rating agencies, if in

the judgment of such rating agencies, circumstances so warrant. Any such downward revision or withdrawal of such ratings may have an adverse effect on the market price of the Series 2007A Bonds.

### **MISCELLANEOUS**

This Official Statement has been duly approved, executed and delivered by the City.

The references in the Official Statement to the Indenture and certain other agreements are brief summaries of certain provisions thereof. Such summaries do not purport to be complete and for full and complete statements of the provisions thereof, reference is made to the Indenture and such other agreements. Copies of such documents are on file at the offices of the City and following the delivery of the Series 2007A Bonds will be on file at the office of the Trustee. All estimates and other statements in this Official Statement involving matters of opinion, whether or not expressly stated, are intended as such and not as representations of fact.

The attached appendices are integral parts of this Official Statement and must be read together with all of the foregoing statements.

### **THE CITY OF ST. LOUIS, MISSOURI**

By: /s/ Francis G. Slay  
Francis G. Slay, Mayor

By: /s/ Darlene Green  
Darlene Green  
Comptroller

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## **APPENDIX A**

### **Review of the Airport Consultant**

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January 10, 2007

Mr. Kevin Dolliole  
Director of Airports  
Lambert-St. Louis International Airport  
Post Office Box 10212  
St. Louis, MO 63145

***Re: Review of the projected operating revenues, expenses and air traffic activity --The City of St. Louis, Missouri, Airport Revenue Refunding Bonds, Series 2007A (Non-AMT) and Series 2007B (AMT) (Lambert-St. Louis International Airport)***

Dear Mr. Dolliole:

Unison-Maximus, Inc. is pleased to have performed a financial review (this Review) in connection with the issuance by the City of St. Louis, Missouri (The City), of the Airport Revenue Refunding Bonds, Series 2007A (Non-AMT) and Series 2007B (AMT) (Lambert-St. Louis International Airport). The Series 2007A (Non-AMT) Bonds are expected to be issued on January 23, 2007 in the par amount of \$231,275,000 million. The Series 2007A (Non-AMT) Bonds are being issued to advance refund a portion of the City's Series 2001A and 2002A Bonds for the purpose of achieving interest savings. The Series 2007B (AMT) Bonds are expected to be issued on April 3, 2007 in the par amount of \$104,735,000 million to refund a portion of the City's Series 1997B Bonds, also for the purpose of achieving interest savings. (The aggregate principal and/or interest components of the bonds being refunded are referred to herein as the Refunded Bonds.) The Refunded Bonds were issued in connection with the financing of various capital improvements at Lambert-St. Louis International Airport (the Airport).

The issuance of the Series 2007A and the Series 2007B Bonds will enable the City to take advantage of opportunities that currently exist in the market to achieve savings in interest costs, and will have the effect of reducing the future debt service payments required to be made from Airport Revenues on Bonds. The Airport is owned by the City and operated by the City of St. Louis Airport Authority (the Authority), an agency of the City. The Airport is the principal airport serving the St. Louis metropolitan area, a region with a population of approximately 2.8 million as of July 2005. In Fiscal Year (FY) 2006,<sup>1</sup> 7.6 million passengers were enplaned at the Airport, of which 5.7 million (75%) were originating passengers and 1.9 million (25%) were connecting passengers.

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<sup>1</sup> The City's fiscal year begins on July 1 and ends on the following June 30.

In recent years a number of events affecting the aviation industry and the Airport have occurred. On September 11, 2001, terrorists crashed four U.S. commercial airplanes, including two of American Airlines Inc (American). These events took place amid an economic slowdown and depressed an already weak travel demand. Subsequent traffic recovery was hampered by other international events such as the SARS epidemic and the Iraq War in 2003. In St. Louis, the recovery of traffic was set back further by the significant cutbacks in American's hub operations at the Airport, which came to full effect in November 2003.<sup>2</sup> Passenger traffic at the Airport has declined each year from FY 2001 through FY 2005. Recent activity, however, shows positive trends, which appear to be sustainable during the forecast period covered by this Review.

American was gradually streamlining its schedules at the Airport over a two-and-one-half year period leading up to a complete hub restructuring in November 2003, as a part of its strategy to streamline systemwide operations and return the airline to profitability following the national economic slowdown and traffic decline in the early 2000s. The table below shows the average daily scheduled departures and seats of American (including its regional affiliates) and all other passenger airlines serving the Airport for the month of October from 2002 through 2006. American's scheduled departures decreased from 409 per day in October 2002 to 181 per day in October 2006. Mainline service cuts accounted for nearly 84% of the reduction in American's flight schedules at the Airport.

**Average Daily Scheduled Departures and Seats**

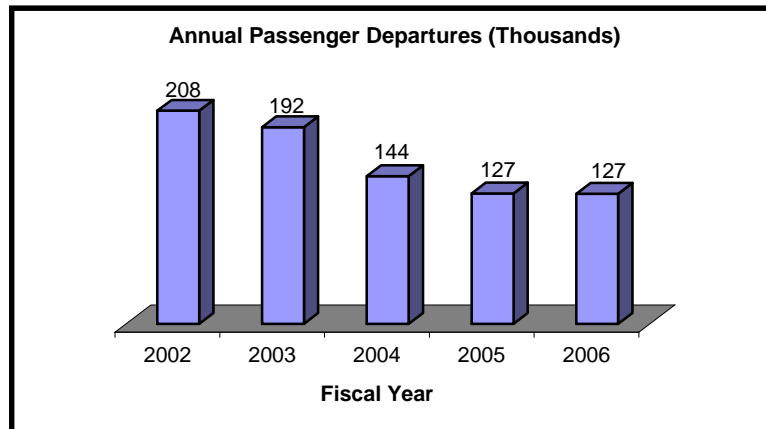
	American Airlines			Other Airlines	Total	
	Mainline	AA Connection	Subtotal			
	Average Daily Scheduled Departures					
	October 2002	246	163	409	143	552
	October 2003	193	176	368	137	505
	October 2004	52	145	197	147	343
	October 2005	55	144	199	153	352
	October 2006	56	125	181	159	340
	Average Daily Scheduled Seats					
	October 2002	35,927	5,946	41,873	15,458	57,331
	October 2003	26,972	6,576	33,548	13,982	47,530
	October 2004	7,197	5,496	12,693	15,003	27,696
	October 2005	8,198	5,522	13,719	15,010	28,730
	October 2006	8,207	5,160	13,367	15,781	29,148

Source: OAG Database.

<sup>2</sup> The Airport is currently a secondary hub in American's route system. American's principal "system hubs" are in Chicago, Dallas/Forth Worth and Miami.

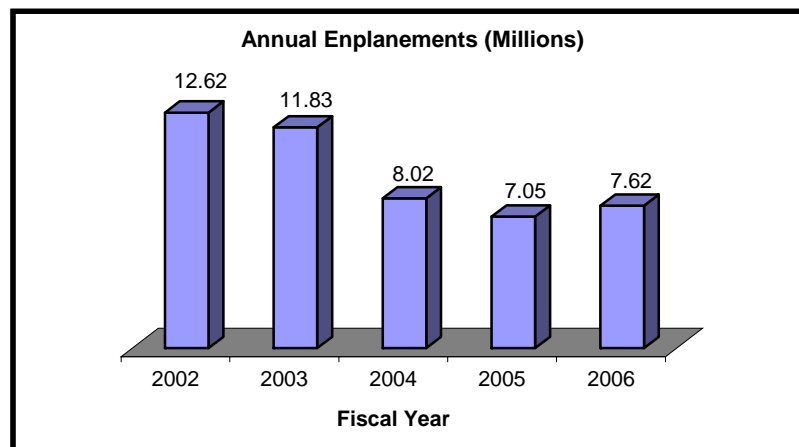
Service by other passenger airlines increased from 143 departures and 15,458 seats per day in October 2002 to 159 departures and 15,781 seats per day in October 2006. In total, scheduled departures at the Airport decreased from 552 per day in October 2002 to 340 per day in October 2006. Scheduled seats decreased from 57,331 per day in October 2002 to 29,148 per day in October 2006.

As shown below, total annual passenger aircraft departures at the Airport decreased from approximately 208,000 in FY 2002 to approximately 127,000 in FY 2006. The Airport experienced no decline in annual passenger aircraft departures in FY 2006 from FY 2005.



Source: Airport records.

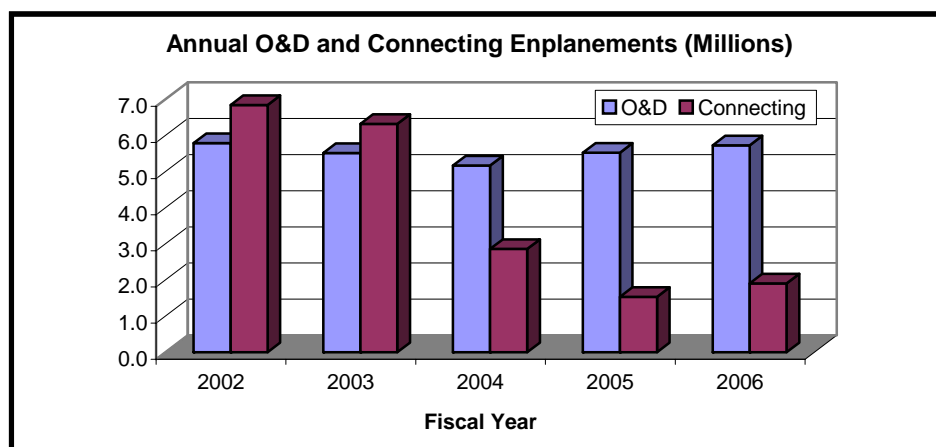
Total enplanements at the Airport declined from 12.62 million in FY 2002 to 7.05 million in FY 2005. In FY 2006, enplanements increased 8.2% from the previous year's level to 7.6 million.



Source: Airport records.

American, together with its American Connection partners, continues to account for the largest share of enplanements at the Airport. However, the combined enplanement share of American and its regional affiliates decreased from 77.5% in FY 2002 to 51.7% in FY 2006. Southwest Airlines (Southwest), the second largest carrier at the Airport, more than doubled its enplanement share, from 11.3% in FY 2002 to 22.9% in FY 2006.

The Airport lost mostly connecting enplanements as a result of the downsizing of American's hub. O&D enplanements declined minimally in FY 2004 due to American's flight cuts, and have since posted annual increases. O&D enplanements provide a significant source of nonairline revenue from parking, rental car and ground transportation concessions.



Source: Airport records.

The City recently completed Phase 1 of the Airport's "Airport Development Program" (the ADP), a program developed as the product of an airport master plan completed in 1996. The principal element of the ADP is a new air carrier runway (Runway 12R/30L) to the southwest of the existing airfield on new land acquired by the City. The new runway allows the Airport to accommodate dual independent aircraft arrivals during instrument flight rule (IFR or bad weather) conditions, thereby substantially increasing airport capacity. The new runway was placed in operation in April 2006 and is estimated after final close out to have a total cost of approximately \$1.059 billion.

As part of the new Use and Lease Agreements (the Use Agreements) executed in January 2006 the Participating Airlines operating at the Airport approved the principal components of the Airport's five-year capital improvement program (the 5-Year CIP). The Airport's 5-Year CIP addresses the period, FY 2006-FY 2010 and consists largely of reconstruction and modernization of existing Airport facilities and infrastructure. Many of the projects in the 5-year CIP will be undertaken only if and when federal funding becomes available.

The total estimated cost of the CIP is \$152.8 million and is expected by the City to be financed largely with equity resources—AIP grants, Transportation Security Administration (TSA) grants, PFC resources, and Airport Development Fund moneys. The City has put in place a \$125 million commercial paper program for the Airport which may be used to provide interim financing of certain projects in the 5-year CIP.

In addition, up to \$24.5 million of additional Bonds may be required to complete the funding of the 5-year CIP. The City is also considering undertaking a comprehensive terminal modernization program. Although the 5-Year CIP includes approximately \$36.7 million for terminal upgrades and renovations, the terminal modernization program now being considered may require funding that is greater than the amount provided for in the 5-year CIP. If and when the City decides to move forward with a more comprehensive terminal modernization program, equity resources such as PFCs are expected to be dedicated to the project in an effort to reduce the impact on airline fees and charges.

The Series 2007A and Series 2007B Bonds are being issued pursuant to the Amended and Restated Indenture of Trust dated September 10, 1997, as amended and supplemented, including as amended and supplemented by the Fourteenth Supplemental Indenture, dated January 1, 2007 and the Fifteenth Supplemental Indenture dated January 1, 2007 (as amended and supplemented, the Indenture). The Series 2007A and Series 2007B Bonds are limited obligations of the City secured by and payable solely from (1) GARB Revenues (as defined in the Indenture), (2) Pledged PFC Revenues (as defined in the Indenture), and (3) any other available moneys deposited with the Trustee for deposit in the Revenue Fund (collectively, the Revenues).

The Series 2007A and Series 2007B Bonds will be issued as Refunding Bonds under the Indenture, Section 305 (B) 4 (a) of which states in part: *“Refunding Bonds of each Series... shall be authenticated and delivered by the Trustee only upon receipt by it from the City...of ... a certificate of an Authorized Officer of the City setting forth the Aggregate Debt Service and the Aggregate Adjusted Debt Service for the then current and each future Airport Fiscal Year...and ...that the Aggregate Debt Service and the Aggregate Adjusted Debt Service set forth for each Airport Fiscal Year [following the issuance of the Refunding Bonds] are no greater than the corresponding amounts set forth for such Airport Fiscal Year[prior to the issuance of the Refunding Bonds]....”*

This Review has been prepared in part to assist the City in complying with Section 305 (B) 4 (a) of the Indenture.

The new Use Agreement became effective in January 2006, with terms expiring on June 30, 2011. The Use Agreement modifies certain aspects of the rate-making procedures of the prior airline agreements but preserves the underlying rate-making concepts (compensatory terminal rentals and cost center residual landing fees).

Due to the significant reduction in air traffic activity at the Airport—caused largely by the reduction in the American hub—the City currently plans to provide up to \$40 million from internal resources of the Airport for landing fee rate mitigation over the five-year period, FY 2007 through FY 2011, as provided in the Use Agreements.

These funds would be transferred to the Revenue Fund and applied to offset Participating Airline landing fees, subject to certain limitations pertaining to maintaining and increasing the amount and type of air service at the airport.

This Review includes the following tables:

Table 1	<b>Projected Airport Revenues</b> – Summary of Airport Revenue projections for FY 2007 – 2011.
Table 2	<b>Operation and Maintenance Expense Projection</b> – Summary of Operating and Maintenance expense projections, by major expense class, for FY 2007 - 2011.
Table 3	<b>Cost Per Enplanement and Airline Rates and Charges Projection</b> – Summary of cost per enplanement, landing fees and terminal rates (West and East Terminals) projections for the FY 2007 – 2011.
Table 4	<b>Comparison of Annual Aggregate Debt Service</b> – Comparison of aggregate debt service for the Airport before and after the issuance of the Series 2007A (Non-AMT) and Series 2007B (AMT) Bonds.
Table 5	<b>Calculation of Projected Annual Debt Service Coverage</b> – Summary of the projected annual debt service coverage ratios for FY 2007 – 2011.

### Major Assumptions

The financial projections presented in this Review are based on the following major assumptions:

1. The final costs of Phase I of the ADP will not exceed the current budget of \$1.059 billion.
2. The City will implement the approved 5-Year CIP as currently planned and project budgets and schedules will be achieved as currently scheduled.
3. American will continue to operate a secondary hub at the Airport throughout the forecast period with at least its current level of service in terms of cities served, number of flights number of seats, and types of aircraft.



4. The Participating Airlines will generate sufficient landed weight each year to receive rate mitigation as programmed.
5. There will be no disruption or loss of service resulting from a terrorist or any other catastrophic event.

### **Findings and Conclusions**

The tables summarize the results of the financial projections developed in this Review and show that, in each future Airport Fiscal Year, the Aggregate Debt Service and the Aggregate Adjusted Debt Service on Bonds is lower than in such Fiscal Years prior to the issuance of the Series 2007A and Series 2007B Bonds.

As indicated in the summary tables, Revenues are forecast to be sufficient to pay Operation and Maintenance Expenses and Aggregate Debt Service and meet all of the other funding requirements of the Indenture in each year of the forecast period, FY 2007 through FY 2011, thereby indicating that the Rates and Charges Covenant (Section 811 of the Indenture) should be met during such period.

In addition, based on our knowledge of comparable airports and our experience in providing financial consulting services to a variety of airports, we believe the forecasted airline costs per enplaned passenger, while considerably higher than those recorded in the years prior to the American pull back, are reasonable in comparison with other major airports that have completed or are currently implementing major capital improvement programs.

The financial projections presented in this Review are based on information and assumptions that have been provided by Airport management, or developed by us and reviewed with and confirmed by Airport management. Based upon our review, we believe that the information is accurate and that the assumptions provide a reasonable basis for the forecast. However, some variation from the forecast is inevitable due to unforeseen events and circumstances, and these variations may be material. This Review should be considered in its entirety for an understanding of the forecast and the underlying assumptions.

We appreciate the opportunity to assist the City on this important financing program for the Airport.

Sincerely,

**UNISON-MAXIMUS, INC.**

*Unison-Maximus, Inc.*

**Table 1**

**PROJECTED AIRPORT REVENUES**  
Lambert-St. Louis International Airport  
Fiscal years Ending June 30  
(in thousands)

AIRPORT REVENUES	Avg. Annual Growth Rate	Actual	Projected				
	2006-2011	2006	2007	2008	2009	2010	2011
Signatory Airlines							
Airfield Landing Fees	8.1%	\$42,083	\$49,239	\$53,465	\$55,706	\$58,685	\$62,134
Terminal Rents	3.6%	19,547	20,767	20,907	21,596	22,700	23,320
Loading Bridge Charges				70	70	70	70
Total	6.8%	\$61,630	\$70,006	\$74,443	\$77,371	\$81,455	\$85,523
Concession Fees							
Terminal Concessions	8.5%	\$7,320	\$8,962	\$9,429	\$9,935	\$10,472	\$11,012
Public Parking	7.4%	12,981	14,755	15,536	16,000	18,079	18,540
Car Rentals	5.1%	10,971	11,144	11,811	12,535	13,304	14,080
Space Rental	-5.2%	722	494	496	510	539	554
In-Flight Catering	3.0%	489	504	519	535	551	568
Other	0.3%	1,398	1,399	1,404	1,409	1,415	1,421
Total	6.4%	\$33,881	\$37,258	\$39,195	\$40,924	\$44,360	\$46,176
Other							
Non-Signatory Landing Fees	-0.4%	\$6,042	\$4,669	\$5,135	\$5,336	\$5,609	\$5,931
Non-Signatory Airlines-Terminal	-1.8%	667	610	610	610	610	610
Total	-0.5%	\$6,709	\$5,279	\$5,745	\$5,946	\$6,219	\$6,541
Airline Revenue Abatement			12,000	10,000	8,000	6,000	4,000
Cargo	-4.3%	\$1,365	\$1,005	\$1,013	\$1,021	\$1,029	\$1,094
Hangars and Other Buildings	-13.1%	356	360	264	167	172	177
Tenant Improvement Surcharge	8.8%	1,159	1,768	1,768	1,768	1,768	1,768
Employee Lot	-100.0%	141	0	0	0	0	0
Other Miscellaneous	3.5%	6,690	6,826	7,213	7,554	7,761	7,948
Total Other-Operating	5.6%	\$16,420	\$27,238	\$26,002	\$24,456	\$22,949	\$21,528
TWA Asset Use Charges		\$3,804	\$0	\$0	\$0	\$0	\$0
Total Operating Revenue	5.8%	\$115,735	\$134,502	\$139,640	\$142,751	\$148,763	\$153,226
Interest Income	-1.7%	\$5,451	\$4,678	\$4,277	\$4,335	\$4,716	\$5,003
Total GARB Revenues	5.5%	\$121,186	\$139,180	\$143,916	\$147,086	\$153,480	\$158,229
PFC Pledged Revenue	6.7%	18,493	25,280	25,555	24,096	25,613	25,617
Total Revenues	5.6%	139,682	164,460	169,471	171,183	179,093	183,845

**TABLE 2**  
**PROJECTED OPERATION AND MAINTENANCE EXPENSES**  
Lambert-St. Louis International Airport  
For Fiscal Years Ending June 30  
(in thousands)

	Avg. Annual Growth Rate	Actual 2006	Budget 2007	Projected			
	2006-2011			2008	2009	2010	2011
<u>Personal Services</u>							
Salaries & Wages	3.2%	29,421	\$30,560	\$31,477	\$32,422	\$33,394	\$34,396
Fringe Benefits	3.8%	6,884	\$7,368	7,589	7,817	8,051	8,293
	3.3%	\$36,305	\$37,928	\$39,066	\$40,238	\$41,445	\$42,689
<u>Supplies, Materials &amp; Equipment</u>							
Deicing & Misc. Supplies	18.7%	975	\$2,042	\$2,104	\$2,167	\$2,232	\$2,299
Other	16.4%	3,417	\$6,491	6,686	6,886	7,093	7,306
	16.9%	\$4,392	\$8,533	\$8,789	\$9,053	\$9,325	\$9,605
<u>Contractual Services</u>							
Utilities	8.6%	6,365	\$7,921	\$8,317	\$8,733	\$9,170	\$9,628
Rental Equipment - Snow Removal	23.2%	827	1,932	2,029	2,130	2,237	2,349
Rental Equipment - Land Maintenance	-17.6%	1,280	431	444	458	471	485
Cleaning Services	2.0%	3,304	2,994	3,144	3,301	3,466	3,639
Reimbursement for City Services	4.2%	1,392	1,406	1,476	1,550	1,628	1,709
Shuttle, Misc., Acoustical		297	-	-	0	0	0
Legal	10.2%	517	691	726	762	800	840
Security Service	6.5%	5,086	5,725	6,011	6,312	6,627	6,958
Insurance	5.7%	2,404	2,613	2,744	2,881	3,025	3,176
Other	12.8%	7,051	10,478	10,796	11,445	12,128	12,896
	7.9%	\$28,522	\$34,192	\$35,687	\$37,572	\$39,552	\$41,681
Total Operation & Maintenance Expenses	6.3%	\$69,219	\$80,654	\$83,543	\$86,864	\$90,322	\$93,975

1. Excludes 5% gross receipts tax, which is not included in the calculation of Net Revenues.

**Table 3**

**SUMMARY OF SIGNATORY AIRLINE REVENUES, COST PER ENPLANED PASSENGER, AND RATES**

Lambert-St. Louis International Airport  
For Fiscal Years Ending June 30  
(in thousands)

	<b>Projected</b>				
	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>
<b>SIGNATORY AIRLINE REVENUES</b>					
Landing Fees	\$49,239	\$53,465	\$55,706	\$58,685	\$62,134
Terminal Building Rentals					
West Terminal	\$15,028	\$15,082	\$15,538	\$16,469	\$16,957
East Terminal	5,739	5,825	6,058	6,230	6,362
	\$20,767	\$20,907	\$21,596	\$22,700	\$23,320
Loading Bridge Charges	\$0	\$70	\$70	\$70	\$70
<b>TOTAL SIGNATORY AIRLINE REVENUES-- BASIC RATES AND CHARGES</b>	<b>\$70,006</b>	<b>\$74,443</b>	<b>\$77,371</b>	<b>\$81,455</b>	<b>\$85,523</b>
Signatory airline enplaned passengers	7,011	7,201	7,419	7,645	7,855
<b>Signatory Airline cost per enplaned passenger</b>	<b>\$9.99</b>	<b>\$10.34</b>	<b>\$10.43</b>	<b>\$10.66</b>	<b>\$10.89</b>
<b>SIGNATORY AIRLINE RATES</b>					
Landing Fee Rate (per 1,000 pounds) <sup>1</sup>	<b>\$5.46</b>	<b>\$5.77</b>	<b>\$5.86</b>	<b>\$6.02</b>	<b>\$6.23</b>
Terminal Building Rental Rates					
West Terminal	<b>\$42.33</b>	<b>\$42.48</b>	<b>\$43.77</b>	<b>\$46.39</b>	<b>\$47.76</b>
East Terminal	<b>\$48.73</b>	<b>\$49.57</b>	<b>\$51.86</b>	<b>\$53.55</b>	<b>\$54.85</b>

<sup>1</sup> Landing fee rate assumes Participating Airlines will generate sufficient landed weight each year to receive rate mitigation as programmed.

**Table 4**

**DEBT SERVICE REQUIREMENTS**  
Lambert-St. Louis International Airport  
For Fiscal Years Ending June 30

Fiscal Year Ending June 31	Prior Aggregate Debt Service	Aggregate Debt Service Refunded Bonds		Aggregate Debt Service Refunding Bonds <sup>3</sup>		Adjusted Aggregate Debt Service
		2007A <sup>1</sup>	2007B <sup>2</sup>	2007 A	2007 B	
2007	\$69,477,605	5,981,919	2,786,438	4,987,363	\$1,280,094	\$66,976,706
2008	64,957,149	11,963,839	5,572,875	11,363,613	5,236,750	\$64,020,798
2009	63,772,613	11,963,839	5,572,875	11,363,613	5,236,750	\$62,836,262
2010	64,972,523	11,963,839	5,572,875	11,363,613	5,236,750	\$64,036,172
2011	65,640,910	11,963,839	5,572,875	11,363,613	5,236,750	\$64,704,559
2012	71,748,043	24,528,839	5,572,875	20,033,613	5,236,750	\$66,916,692
2013	72,312,183	24,527,510	5,572,875	24,355,113	5,236,750	\$71,803,661
2014	72,288,208	26,361,635	5,572,875	25,933,863	5,236,750	\$71,524,311
2015	74,366,809	13,210,648	11,817,875	13,200,113	11,496,750	\$74,035,149
2016	66,126,709	11,884,910	11,790,013	11,873,863	11,468,750	\$65,794,399
2017	66,168,205	11,820,581	11,766,400	11,804,613	11,446,500	\$65,832,336
2018	66,144,234	11,452,363	11,335,988	11,437,363	11,014,000	\$65,807,247
2019	56,761,731	11,450,888	11,339,250	11,436,863	11,021,000	\$56,429,456
2020	56,767,619	27,442,963	11,338,613	27,430,663	11,020,750	\$56,437,457
2021	56,865,975	30,032,963	11,338,288	30,024,413	11,017,750	\$56,536,888
2022	56,757,513	31,112,313	11,337,225	31,101,913	11,016,250	\$56,426,138
2023	50,460,850	26,427,250	11,339,375	26,415,163	11,020,250	\$50,129,638
2024	50,461,650	26,429,750	11,338,425	26,421,913	11,018,500	\$50,133,888
2025	50,464,475	26,430,250	11,338,325	26,421,163	11,020,250	\$50,137,313
2026	50,451,138	26,426,250	11,337,763	26,419,413	11,019,250	\$50,125,788
2027	50,372,825	4,750,250	11,335,425	4,748,900	11,014,500	\$50,050,550
2028	39,274,925	4,748,000		4,746,650		\$39,273,575
2029	39,272,250	4,747,000		4,742,813		\$39,268,063
2030	39,277,150	4,751,750		4,747,175		\$39,272,575
2031	39,274,200	4,746,500		4,744,100		\$39,271,800
2032	6,898,500	4,751,250		4,748,588		\$6,895,838

<sup>1</sup> Represents Aggregate Debt Service on a portion of the Series 2001A and Series 2002A Bonds in the approximate par values of \$178.4 million and \$54.7 million respectively.

<sup>2</sup> Represents the Aggregate Debt Service on a portion of the Series 1997B Bonds in the approximate par value of \$106.2 million.

<sup>3</sup> Aggregate Debt Service information prepared by Lehman Brothers for the Series 2007A and Series 2007B Bonds as of January 9, 2007.

**Table 5**

**CALCULATION OF ANNUAL DEBT SERVICE COVERAGE**

Lambert St. Louis International Airport  
For Fiscal years Ending June 30  
(in thousands)

	Projected				
	2007	2008	2009	2010	2011
<b>ANNUAL DEBT SERVICE COVERAGE</b>					
Total Revenues	\$164,460	\$169,471	\$171,183	\$179,093	\$183,845
less: Operation and Maintenance Expenses	80,654	83,543	86,864	90,322	93,975
Net Revenues	\$83,806	\$85,928	\$84,319	\$88,771	\$89,871
Debt Service					
Outstanding Bonds <sup>1, 2</sup>	\$63,181	\$64,021	\$62,836	\$64,036	\$64,705
Future Bonds	0	0	0	0	2,144
	\$63,181	\$64,021	\$62,836	\$64,036	\$66,849
<b>Debt service coverage ratio</b>	<b>1.33</b>	<b>1.34</b>	<b>1.34</b>	<b>1.39</b>	<b>1.34</b>

<sup>1</sup> The FY 2007 debt service on outstanding bonds is reduced by \$3.8 million, which is the amount of the debt service reserve fund for the Series 1996 Refunding Bonds that will be offset against the final debt service payment.

<sup>2</sup> Includes information prepared by Lehman Brothers for the Series 2007A and 2007B Bonds as of January 9, 2007.

## **APPENDIX B**

### **Audited Financial Statements of the Airport**

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**LAMBERT – ST. LOUIS INTERNATIONAL AIRPORT**  
(An Enterprise Fund of the City of St. Louis, Missouri)

Basic Financial Statements and Supplementary Information

June 30, 2006 and 2005

(With Independent Auditors' Report Thereon)

**LAMBERT – ST. LOUIS INTERNATIONAL AIRPORT**  
 (An Enterprise Fund of the City of St. Louis, Missouri)  
 Basic Financial Statements and Supplementary Information  
 June 30, 2006 and 2005

**Table of Contents**

	<b>Page</b>
Independent Auditors' Report	1
Management's Discussion and Analysis	3
Basic Financial Statements:	
Balance Sheets	15
Statements of Revenues, Expenses, and Changes in Fund Net Assets	17
Statements of Cash Flows	18
Notes to Basic Financial Statements	19
	<b>Schedule</b>
<b>Supplementary Information</b>	
Analysis of Cash and Investment Accounts	I 48
Schedule of 1996 Revenue Refunding Bonds Payable	II 50
Schedule of 1997A and 1997B Taxable Revenue Bonds Payable	III 51
Schedule of 1998 Revenue Refunding Bonds Payable	IV 52
Schedule of 2001A Airport Revenue Bonds Payable	V 53
Schedule of 2002 Airport Revenue Bonds Payable	VI 54
Schedule of 2003A Revenue Refunding Bonds Payable	VII 55
Schedule of 2005 Taxable Revenue Refunding Bonds Payable	VIII 56
Schedule of Insurance	IX 57



**KPMG LLP**  
Suite 900  
10 South Broadway  
St. Louis, MO 63102-1761

## **Independent Auditors' Report**

Honorable Mayor and Members of  
the Board of Aldermen of the  
City of St. Louis, Missouri:

We have audited the accompanying basic financial statements of Lambert – St. Louis International Airport, an enterprise fund of the City of St. Louis, Missouri, as of and for the years ended June 30, 2006 and 2005, as listed in the accompanying table of contents. These financial statements are the responsibility of the City of St. Louis, Missouri's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Lambert – St. Louis International Airport's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in note 1, the financial statements present only the financial position and the changes in financial position and cash flows of Lambert – St. Louis International Airport, an enterprise fund of the City of St. Louis, Missouri, and do not purport to, and do not, present fairly the financial position of the City of St. Louis, Missouri as of June 30, 2006 and 2005, and changes in its financial position and cash flows, where applicable, thereof for the years then ended in conformity with U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Lambert – St. Louis International Airport, an enterprise fund of the City of St. Louis, Missouri, as of June 30, 2006 and 2005, and the changes in its financial position and cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Effective July 1, 2005, the Airport implemented Governmental Accounting Standards Board Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 30, 2006 on our consideration of Lambert – St. Louis International Airport's, an enterprise fund of the City of St. Louis, Missouri, internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 3 through 14 is not a required part of the basic financial statements, but is supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information, as listed in the accompanying table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplementary information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

KPMG LLP

St. Louis, Missouri  
October 30, 2006

## Lambert-St. Louis International Airport Management's Discussion and Analysis

The following discussion and analysis of the activity and financial performance of Lambert-St. Louis International Airport (the Airport) has been prepared by Airport management to provide the reader with an introduction and overview to the basic financial statements of the Airport for the fiscal year ended June 30, 2006 and 2005. Following this discussion and analysis are the basic financial statements of the Airport together with the notes thereto which are essential to a full understanding of the data contained within the basic financial statements. All amounts, unless otherwise indicated, are expressed in thousands of dollars.

### SUMMARY OF AIRPORT ACTIVITY

The slow down in air travel continued in 2005; however, enplaned passengers and landed weights have started a rebound at the Airport during fiscal year 2006 as follows:

	2006	2005	Change
Enplaned passengers	7,608,290	7,048,359	7.94%
Aircraft landings and takeoffs	281,746	289,754	(2.76%)
Landed weight (in thousands of pounds)	10,062,743	9,996,474	.66%
Mail and cargo (in tons)	102,726	113,107	(9.18%)

	2005	2004	Change
Enplaned passengers	7,048,359	8,017,619	(12.09%)
Aircraft landings and takeoffs	289,754	354,420	(18.25%)
Landed weight (in thousands of pounds)	9,996,474	12,175,529	(17.90%)
Mail and cargo (in tons)	113,107	117,281	(3.56%)

### FINANCIAL HIGHLIGHTS

The following represents the significant financial activity at the Airport in fiscal years 2006, 2005 and 2004 and the reasons for any fluctuations between the years:

- Fiscal year 2006 operating revenues increased 4.9% from \$110,323 in fiscal year 2005 to \$115,735 in fiscal year 2006, due to the increase in airline activity. Fiscal year 2005 operating revenues decreased 7.5% from \$119,328 in fiscal year 2004 to \$110,323 in fiscal year 2005 due to the continued decrease in flights.
- Fiscal year 2006 operating expenses increased 1.8% from \$105,942 in fiscal year 2005 to \$107,858 in fiscal year 2006 as a result of increased payroll and contractual service costs. Fiscal year 2005 operating expenses increased 1.4% from \$104,090 in fiscal year 2004 to \$105,942 in fiscal year 2005 as a result of increased depreciation expense.
- The net result of the impact to operating revenues and expenses, as discussed above, is fiscal year 2006 operating income increased 79.8% to \$7,877 from \$4,381 in fiscal year 2005, compared with fiscal year 2005 operating income decreased by 70.7% to \$4,381 from \$14,927 in fiscal year 2004.
- Fiscal year 2006 nonoperating revenue, net increased to \$9,733 from \$3,429 in fiscal year 2005 resulting primarily from passenger facility charges increasing from \$27,164 in fiscal year 2005 to \$33,434 in fiscal year 2006. In contrast, nonoperating revenues, net increased to \$3,429 in

fiscal year 2005 from \$712 in fiscal year 2004 resulting from an increase in investment income primarily due to gains realized from the Series 2003B Bond reserve fund and a decrease in interest expense resulting from capitalization of interest.

- Capital contributions received in the form of grants from federal and state governments decreased to \$38,239 in fiscal year 2006 from \$72,036 in fiscal year 2005 due to reduced funding received in support of its W-1W expansion project. In contrast, capital contributions received in the form of grants from federal and state governments increased to \$72,036 in fiscal year 2005 from \$44,242 in fiscal year 2004 as the Airport received increased federal grant funding in support of its W-1W expansion project, which is discussed more thoroughly in Note 17 to the basic financial statements.
- The Airport recognized an impairment of capital assets of \$(8,392) in fiscal year 2006 due to the Airport's implementation of GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*.
- As a result of the preceding items, net assets increased from \$1,008,863 in fiscal year 2004, to \$1,083,139 in fiscal year 2005, and to \$1,125,189 in fiscal year 2006.

## SUMMARY OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

The Airport's revenues, expenses, and changes in net assets for the fiscal years ended June 30, 2006, 2005, and 2004 are summarized as follows (dollars in thousands):

	2006	2005	\$ Change	% Change
Operating revenue	\$ 115,735	110,323	5,412	4.9%
Operating expenses	107,858	105,942	1,916	1.8%
Operating income	7,877	4,381	3,496	79.8%
Nonoperating revenue, net	9,733	3,429	6,304	183.8%
Income before capital contributions, transfers, and other	17,610	7,810	9,800	123.9%
Capital contributions	38,239	72,036	(33,797)	(46.9%)
Transfers out	(5,407)	(5,570)	(163)	(2.9%)
Impairment of capital assets	(8,392)	0	(8,392)	100.0%
Increase in net assets	42,050	74,276	(32,226)	(43.4%)
Net assets, end of year	\$ 1,125,189	1,083,139	42,050	3.9%

	2005	2004	\$ Change	% Change
Operating revenue	\$ 110,323	119,328	(9,005)	(7.5%)
Operating expenses	105,942	104,401	1,541	1.4%
Operating income	4,381	14,927	(10,546)	(70.7%)
Nonoperating revenue, net	3,429	712	2,717	381.6%
Income before capital contributions and transfers	7,810	15,639	(7,829)	(50.1%)
Capital contributions	72,036	44,242	27,794	62.8%
Transfers out	(5,570)	(5,434)	(136)	(2.5%)
Increase in net assets	74,276	54,447	19,829	36.4%
Net assets, end of year	\$ 1,083,139	1,008,863	74,276	7.4%

## FINANCIAL POSITION SUMMARY

Net assets may serve over time as a useful indicator of the Airport's financial position. The Airport's assets exceeded liabilities by \$1,125,189 at June 30, 2006, a \$42,050 increase from June 30, 2005.

A condensed summary of the Airport's net assets at June 30, 2006 and 2005 is shown below:

	2006	2005	\$ Change	% Change
<b>Assets:</b>				
Current and other assets	\$ 314,156	411,940	(97,784)	(23.7%)
Capital assets	1,752,638	1,639,582	113,056	6.9%
Total assets	2,066,794	2,051,522	15,272	0.7%
<b>Liabilities:</b>				
Long-term debt outstanding	876,854	894,474	(17,620)	(2.0%)
Other liabilities	64,751	73,909	(9,158)	(12.4%)
Total liabilities	941,605	968,383	(26,778)	(2.8%)
<b>Net assets:</b>				
Invested in capital assets, net of debt	991,086	941,531	49,555	5.3%
Restricted	117,326	125,890	(8,564)	(6.8%)
Unrestricted	16,777	15,718	1,059	6.7%
Total net assets	\$ 1,125,189	1,083,139	42,050	3.9%

A portion of the Airport's net assets (88.1% at June 30, 2006) represents its investment in capital assets (e.g., land, buildings, roads, runways, and equipment), less the related indebtedness outstanding used to acquire those capital assets. The Airport uses these capital assets to provide services to its passengers and visitors to the Airport; consequently, these assets are not available for future spending. Although the Airport's investment in its capital assets is reported net of related debt, it is noted that the resources required to repay this debt must be provided annually from operations, since it is unlikely the capital assets themselves will be liquidated to pay liabilities.

An additional portion of the Airport's net assets (10.4% at June 30, 2006) represents net assets that are subject to external restrictions on how they can be used. These assets can be used for any lawful Airport use including debt service, capital projects, or expenditure subject to the restrictions of the Passenger Facility Charge program.

The remaining portion of the Airport's net assets (1.5% at June 30, 2006) represents its unrestricted investments, less any outstanding indebtedness, which may be used to meet any of the Airport's ongoing obligations.

In fiscal 2006 capital assets have increased with the completion of the construction of the new runway project, referred to as W1W.

The Airport's assets exceeded liabilities by \$1,083,139 at June 30, 2005, a \$74,276 increase from June 30, 2004.

A condensed summary of the Airport's net assets at June 30, 2005 and 2004 is shown below:

	2005	2004	\$ Change	% Change
<b>Assets:</b>				
Current and other assets	\$ 411,940	544,608	(132,668)	(24.4%)
Capital assets	1,639,582	1,474,152	165,430	11.2%
Total assets	2,051,522	2,018,760	32,762	1.6%
<b>Liabilities:</b>				
Long-term debt outstanding	894,474	929,023	(34,549)	(3.7%)
Other liabilities	73,909	80,874	(6,965)	(8.6%)
Total liabilities	968,383	1,009,897	(41,514)	(4.1%)
<b>Net assets:</b>				
Invested in capital assets, net of debt	941,531	806,056	135,475	16.8%
Restricted	125,890	167,805	(41,915)	(25.0%)
Unrestricted	15,718	35,002	(19,284)	(55.1%)
Total net assets	\$ 1,083,139	1,008,863	74,276	7.4%

A portion of the Airport's net assets (86.9% at June 30, 2005) represents its investment in capital assets (e.g., land, buildings, roads, runways, and equipment), less the related indebtedness outstanding used to acquire those capital assets. The Airport uses these capital assets to provide services to its passengers and visitors to the Airport; consequently, these assets are not available for future spending. Although the Airport's investment in its capital assets is reported net of related debt, it is noted that the resources required to repay this debt must be provided annually from operations, since it is unlikely the capital assets themselves will be liquidated to pay liabilities.

An additional portion of the Airport's net assets (11.6% at June 30, 2005) represents net assets that are subject to external restrictions on how they can be used. These assets can be used for any lawful Airport use including debt service, capital projects, or expenditure subject to the restrictions of the Passenger Facility Charge program.

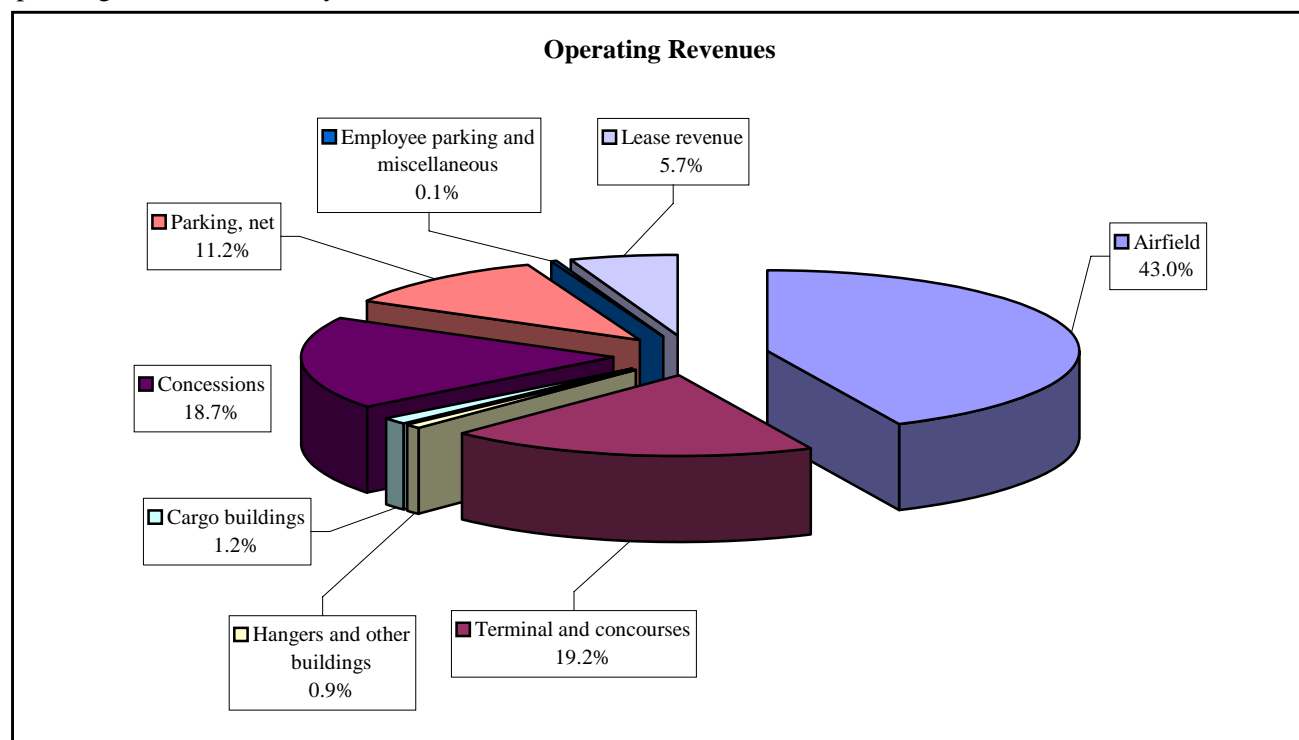
The remaining portion of the Airport's net assets (1.5% at June 30, 2005) represents its unrestricted investments, less any outstanding indebtedness, which may be used to meet any of the Airport's ongoing obligations.

In fiscal 2005 capital assets and other liabilities have increased with the construction of the new runway project, referred to as W1W.



## REVENUES

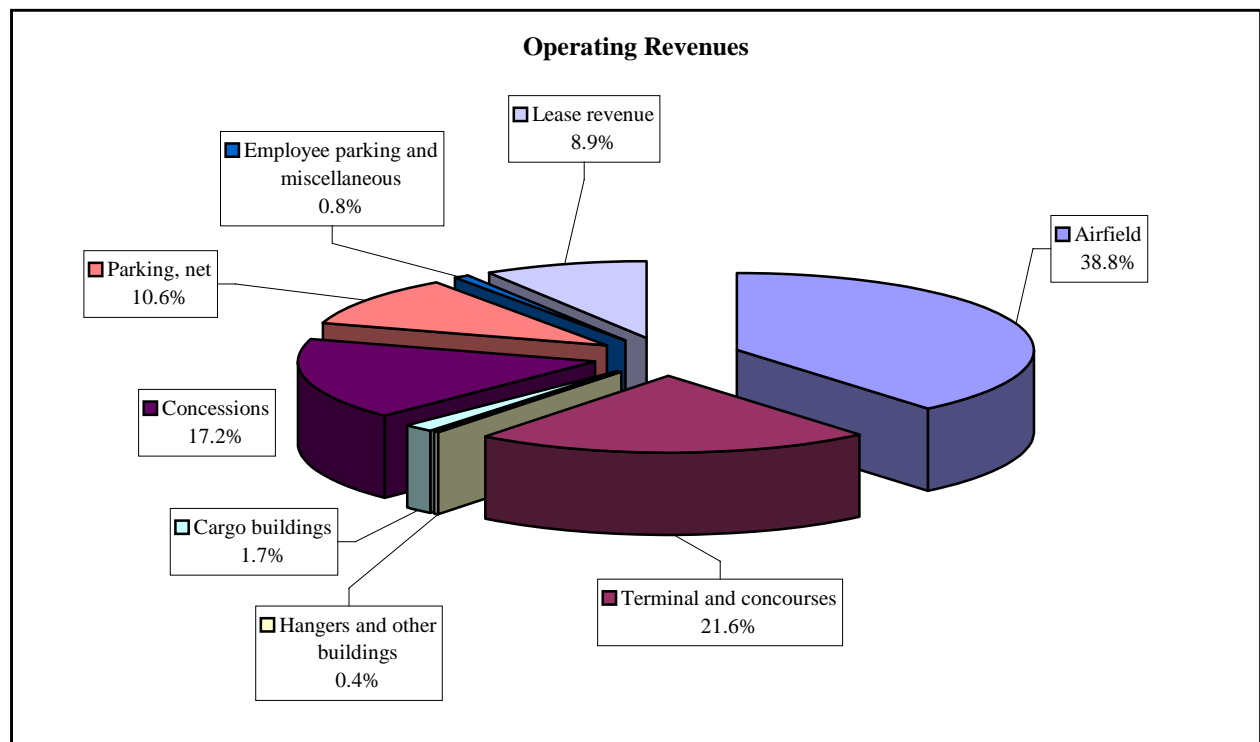
The following chart shows the major sources of operating revenues, and their percentage share of total operating revenues, for the year ended June 30, 2006:



The following table summarizes Airport operating and nonoperating revenues, and their percentage share of total Airport operating and nonoperating revenue, for the year ended June 30, 2006.

	2006	% of total	\$ Change from 2005	% Change from 2005
<b>Operating revenues:</b>				
Aviation revenue:				
Airfield	\$ 49,789	30.0%	7,001	16.4%
Terminal and concourses	22,227	13.4%	(1,656)	(6.9%)
Hangers and other buildings	1,082	0.7%	665	159.5%
Cargo buildings	1,365	0.8%	(482)	(26.1%)
Concessions	21,606	13.0%	2,676	14.1%
Parking, net	12,982	7.8%	1,229	10.5%
Employee parking and miscellaneous	141	0.1%	(797)	(85.0%)
Lease revenue	6,543	3.9%	(3,224)	(33.0%)
<b>Total operating revenue</b>	<b>115,735</b>	<b>69.7%</b>	<b>5,412</b>	<b>4.9%</b>
<b>Nonoperating revenue:</b>				
Intergovernmental revenue	6,673	4.0%	2,668	66.6%
Investment revenue	10,302	6.2%	509	5.2%
Passenger facility charges	33,434	20.1%	6,270	23.1%
<b>Total nonoperating revenue</b>	<b>50,409</b>	<b>30.3%</b>	<b>9,447</b>	<b>18.7%</b>
<b>Total revenues</b>	<b>\$ 166,144</b>	<b>100.0%</b>	<b>14,859</b>	<b>9.8%</b>

The following chart shows the major sources of operating revenues, and their percentage share of total operating revenues, for the year ended June 30, 2005:

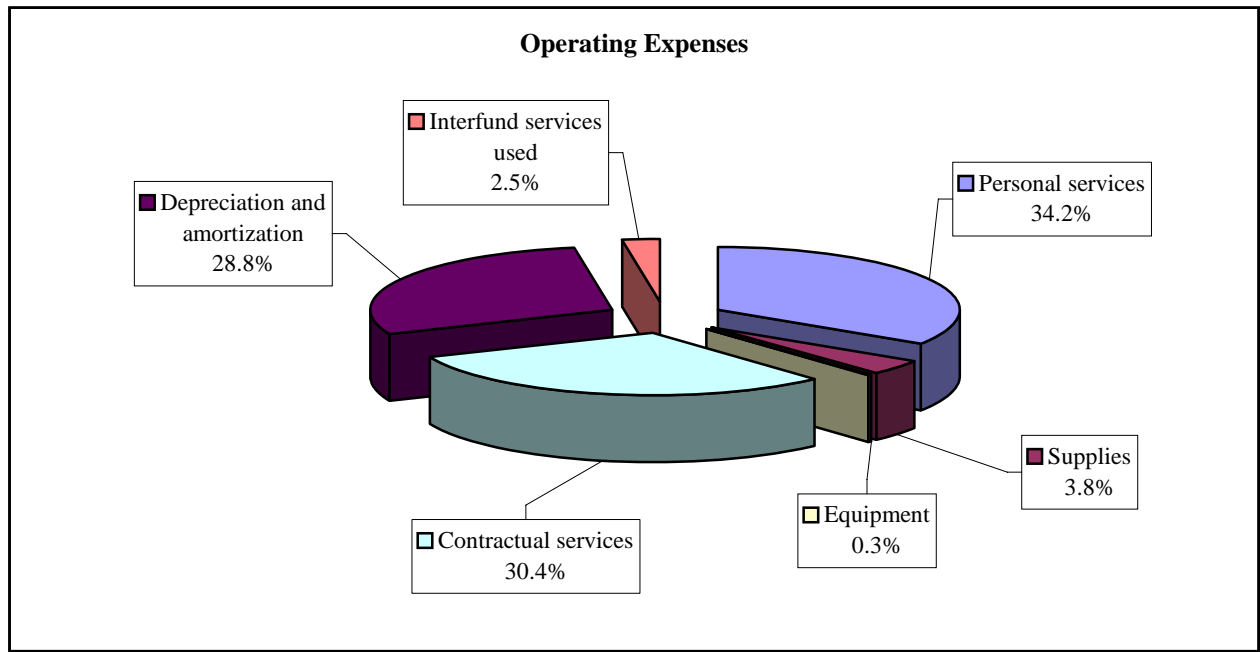


The following table summarizes Airport operating and nonoperating revenues, and their percentage share of total Airport operating and nonoperating revenue, for the year ended June 30, 2005.

	2005	% of total	\$ Change from 2004	% Change from 2004
<b>Operating revenues:</b>				
Aviation revenue:				
Airfield	\$ 42,788	28.3%	(920)	(2.1%)
Terminal and concourses	23,883	15.8%	(805)	(3.3%)
Hangers and other buildings	417	0.3%	(4)	(1.0%)
Cargo buildings	1,847	1.2%	(31)	(1.7%)
Concessions	18,930	12.5%	(3,009)	(13.7%)
Parking, net	11,753	7.3%	2,088	21.6%
Employee parking and miscellaneous	938	0.6%	44	4.9%
Lease revenue	9,767	6.4%	(6,368)	(39.5%)
<b>Total operating revenue</b>	<b>110,323</b>	<b>72.9%</b>	<b>(9,005)</b>	<b>(7.5%)</b>
<b>Nonoperating revenue:</b>				
Intergovernmental revenue	4,005	2.6%	(657)	(14.1%)
Investment revenue	9,793	6.5%	2,390	32.3%
Passenger facility charges	27,164	18.0%	(4,270)	(13.6%)
<b>Total nonoperating revenue</b>	<b>40,962</b>	<b>27.15</b>	<b>(2,537)</b>	<b>(5.8%)</b>
<b>Total revenues</b>	<b>\$ 151,285</b>	<b>100.0%</b>	<b>(11,542)</b>	<b>(7.1%)</b>

## EXPENSES

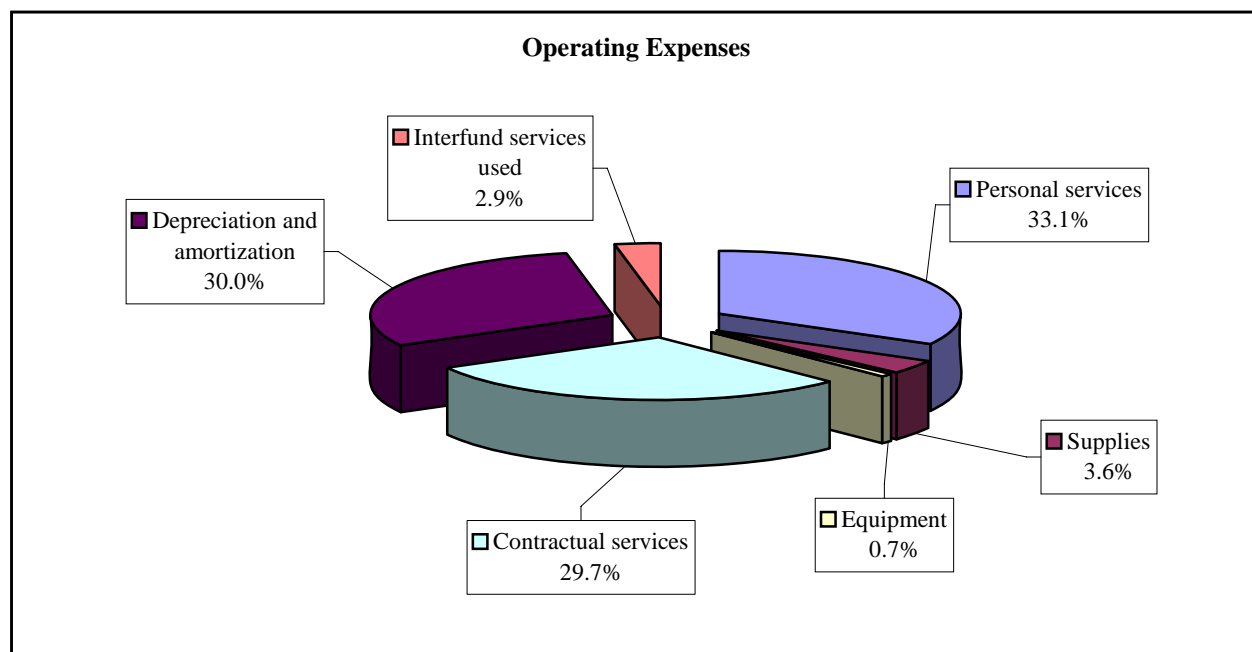
The following chart shows the major sources of operating expenses, and their percentage share of total operating expenses, for the year ended June 30, 2006:



The following table summarizes Airport operating and nonoperating expenses, and their percentage share of total Airport operating and nonoperating expenses, for the year ended June 30, 2006:

	2006	% of total	\$ Change from 2005	% Change from 2005
<b>Operating expenses:</b>				
Personal services	\$ 36,918	24.9%	1,902	5.4%
Supplies	4,098	2.8%	285	7.5%
Equipment	294	0.2%	(466)	(61.3%)
Contractual services	32,848	22.2%	1,270	4.0%
Depreciation and amortization	31,025	20.7%	(732)	(2.3%)
Interfund services used	2,675	1.8%	(343)	(11.4%)
<b>Total operating expenses</b>	<b>107,858</b>	<b>72.6%</b>	<b>1,916</b>	<b>1.8%</b>
<b>Nonoperating expenses:</b>				
Interest expense	39,594	26.7%	3,378	9.3%
Amortization of bond issue costs	872	0.6%	(407)	(31.8%)
Other, net	210	0.1%	172	452.6%
<b>Total nonoperating expenses</b>	<b>40,676</b>	<b>27.4%</b>	<b>3,143</b>	<b>8.4%</b>
<b>Total expenses</b>	<b>\$ 148,534</b>	<b>100.0%</b>	<b>5,059</b>	<b>3.5%</b>

The following chart shows the major sources of operating expenses, and their percentage share of total operating expenses, for the year ended June 30, 2005:



The following table summarizes Airport operating and nonoperating expenses, and their percentage share of total Airport operating and nonoperating expenses, for the year ended June 30, 2005:

	2005	% of total	\$ Change from 2004	% Change from 2004
<b>Operating expenses:</b>				
Personal services	\$ 35,016	24.4%	(479)	(1.3%)
Supplies	3,813	2.7%	(401)	(9.5%)
Equipment	760	0.5%	159	26.5%
Contractual services	31,578	22.0%	731	2.4%
Depreciation and amortization	31,757	22.1%	1,289	4.2%
Interfund services used	3,018	2.1%	553	22.4%
<b>Total operating expenses</b>	<b>105,942</b>	<b>73.9%</b>	<b>1,852</b>	<b>1.8%</b>
<b>Nonoperating expenses:</b>				
Interest expense	36,216	25.2%	(4,541)	(11.1%)
Amortization of bond issue costs	1,279	0.9%	(927)	(42.0%)
Other, net	38	0.0%	(97)	(71.9%)
<b>Total nonoperating expenses</b>	<b>37,533</b>	<b>26.1%</b>	<b>(5,565)</b>	<b>(12.9%)</b>
<b>Total expenses</b>	<b>\$ 143,475</b>	<b>100.0%</b>	<b>(3,713)</b>	<b>(2.7%)</b>

Fiscal year 2006 operating revenues increased 4.9% or \$5,412 primarily due to a \$7,001 increase in airfield revenues which resulted from the new use and lease agreement with signatory airlines. This increase in operating revenues was offset by a decrease in lease revenues of (\$3,224) following the expiration of the equipment lease agreement with American Airlines on December 31, 2005. In addition, non-operating revenues increased 18.7% or \$9,447 due to an increase in passenger facility charges of \$6,270 and an increase in intergovernmental revenue of \$2,668.

Fiscal year 2005 operating revenues declined 7.5% or (\$9,005) primarily due to a decrease in lease revenues following the expiration of the Boeing property lease agreement (\$6,368). In addition, lower airfield revenues (\$920), terminal and concourse revenues (\$805) and lower concessions revenues (\$3,009) resulting from decreased capital spending, following the American Airlines service reductions in fiscal year 2004. Fiscal year 2005 non-operating income decreased 5.8% or (\$2,537) primarily due to a decline in passenger facility charges (\$4,270) that was attributed to the decrease in passenger traffic following the American Airlines service reduction. This decrease was partially offset by an increase in investment revenue of \$2,390 resulting from earnings from the Series 2003B Bond reserve fund.

Fiscal year 2006 operating expenses increased 1.8% or \$1,916 due to increases in personal services of \$1,902 and contractual services of \$1,270, which were partially offset by a reduction in depreciation (\$732) and equipment (\$466).

Fiscal year 2005 operating expenses increased 1.8% or \$1,852 primarily due to an increase in depreciation/amortization \$1,289 and an increase in interfund services \$553 resulting from the completion of various capital projects/equipment acquisitions, legal fees and worker compensation settlements. In contrast non-operating expenses decreased 12.9% or (\$5,565) comprised of a decrease in interest expense (\$4,541) and amortization of bond issue costs (\$927), which were due to initiation of a commercial paper program.

## **AIRLINE USE RATES AND CHARGES**

As of June 30, 2006, the Airport was served by twelve airlines with use agreements, fifteen airlines with operating agreements, and six cargo carriers. An individual airline with a Use and Lease Agreement with the Airport has a contract which establishes how the airlines are assessed annual rates and charges for their use of the Airport. These agreements expire June 30, 2011.

Landing and rental fees are calculated on estimated operating and maintenance expenses and are charged to the airlines based upon landing weights or square footage utilized. The amount charged is adjusted based upon actual expenses and actual landing usage incurred. Non-affiliated airlines with operating agreements are assessed 125% of the carrier rates with use agreements.

## **FINANCIAL STATEMENTS**

The Airport's basic financial statements are prepared on an accrual basis in accordance with the U. S. generally accepted accounting principles promulgated by the Government Accounting Standards Board (GASB). The Airport is structured as a single enterprise fund owned and operated by the City of St. Louis, Missouri with revenues recognized when earned. Expenses are recognized when incurred. Capital assets are capitalized and (other than land) are depreciated over their useful lives. Amounts are restricted for debt service and, where applicable, for construction activities. Refer to Note 1 of the basic financial statements for a summary of the Airport's significant accounting policies.

## CAPITAL ACQUISITIONS AND CONSTRUCTION ACTIVITIES

During fiscal year 2006, the Airport expended \$157,800 on capital activities. The major projects were as follows:

Land for W1W expansion project	\$36,960
Construction costs for W1W expansion project (discussed in Note 17)	\$70,000
Construction in progress	\$51,198

During 2006, completed projects totaling approximately \$563,625 were closed from construction in progress to their respective capital accounts. The major completed projects were:

New Runway W1W	\$532,884
Terminal and concourse improvements	\$4,034
Public parking lot	\$1,418
Runway improvements	\$20,640
Roads	\$461
New West Firehouse ARFF	\$4,188

During fiscal year 2005, the Airport expended \$184,000 on capital activities. The major projects were as follows:

Land and easement purchases	\$464
Land for W1W expansion project	\$43,024
Construction costs for W-1W expansion project (discussed in Note 17)	\$102,862
Construction in progress	\$37,650

During 2005, completed projects totaling approximately \$10,441 were closed from construction in progress to their respective capital accounts. The major completed projects were:

Terminal and concourse improvements	\$2,760
Runway improvements	\$6,556
Public parking	\$984
Roads	\$141

Capital asset acquisitions and improvements exceeding \$10,000 (in dollars) are capitalized at cost. Acquisitions are funded using a variety of financing techniques, including federal grants, State of Missouri grants, passenger facility charges, debt issuances, and Airport operating revenues. The Airport had outstanding commitments amounting to approximately \$118,892 at June 30, 2005, and approximately \$54,200 at June 30, 2006, resulting primarily from contracts for construction projects. Additional information on the Airport's capital assets and commitments can be found in the notes to the basic financial statements.

## **PASSENGER FACILITY CHARGES**

The Airport initially received approval from the FAA to impose a passenger facility of \$3.00 (in dollars) per enplaned passenger beginning December 1, 1992, not to exceed \$131,453, principally to finance the Airport Improvement Program. On December 1, 2001, the Airport received approval to increase the passenger facility charge (PFC) \$4.50 (in dollars) per enplaned passenger. The current limitation on passenger facility charges to be collected is \$1,294,702.

The PFC is withheld by the respective airline for each ticket or transfer in St. Louis and remitted to the Airport one month after collection, less a \$.11 (in dollars) per ticket operating fee by the airline. PFC revenue is classified as nonoperating revenue.

## **LONG-TERM DEBT ADMINISTRATION**

At June 30, 2006, the Airport had the following bond series outstanding:

Revenue Refunding Bonds, Series 1996, dated April 1, 1996, maturing annually from fiscal year 1996 through 2008 with interest coupons ranging from 5.25% to 5.35%.

- Balance outstanding at June 30, 2006 - \$8,340

Revenue Bonds, Series 1997B, dated August 15, 1997, maturing annually from fiscal year 2001 through 2028 with interest coupons ranging from 5.25% to 6.00%.

- Balance outstanding at June 30, 2006 - \$149,435

Revenue Refunding Bonds, Series 1998, dated December 1, 1998, maturing annually from fiscal year 2000 through 2016 with interest coupons ranging from 4.00% to 5.13%.

- Balance outstanding at June 30, 2006 - \$59,090

Revenue Bonds, Series 2001A, dated May 1, 2001, maturing annually from fiscal year 2007 through 2027 with interest coupons ranging from 4.13% to 5.63% percent.

- Balance outstanding at June 30, 2006 - \$209,205

Revenue Bonds, Series 2002 A, B, and C, dated December 19, 2002, maturing annually from fiscal year 2003 through 2033 with interest coupons ranging from 2.50% to 5.50% percent.

- Balance outstanding at June 30, 2006 - \$100,980

Revenue Refunding Bonds, Series 2003A, dated February 25, 2003, maturing annually from fiscal year 2007 through 2019 with interest coupons ranging from 2.38% to 5.25% percent.

- Balance outstanding at June 30, 2006 - \$70,340

Taxable Revenue Refunding Bonds, Series 2005, dated July 7, 2005, maturing annually from fiscal year 2013 through 2032 with interest coupons ranging from 4.00% to 5.50% percent.

- Balance outstanding at June 30, 2006 - \$263,695

## **CREDIT RATINGS AND BOND INSURANCE**

As of September 12, 2006, Moody's rated the Airport's uninsured bonds "Baa1" with a stable outlook and "Aaa" for the insured series. In June 2005 Fitch Ratings reaffirmed the Airport's underlying rating as "AAA" for uninsured and BBB+ for insured series. Also in June 2005 Standard & Poor's put the Airport on "stable outlook" with ratings of "AAA" for insured series and "BBB+" for all series.

Concurrent with the issuance of the Series 2001A Revenue Bonds, MBIA Insurance Corporation issued its Municipal Bond New Issue Policy for the Series 2001A bonds. This policy has been purchased by the Airport to guarantee the payment of principal and interest when due.

## **REQUESTS FOR INFORMATION**

These basic financial statements are designed to provide a general overview of the Airport's finances for all those with an interest. Questions concerning any information provided in this report should be addressed to the Office of the Airport Assistant Director for Finance and Accounting, Lambert-St. Louis International Airport, P. O. Box 10212, St. Louis, Missouri, 63145.



**LAMBERT – ST. LOUIS INTERNATIONAL AIRPORT**  
**(An enterprise fund of the City of St. Louis, Missouri)**

Balance Sheets

June 30, 2006 and 2005

(Dollars in thousands)

Assets	<u>2006</u>	<u>2005</u>
Current assets:		
Unrestricted assets:		
Cash and cash equivalents	\$ 5,945	8,162
Accounts receivable, net	9,441	3,109
Supplies and materials	1,813	1,914
Other current assets	2,096	2,000
Total unrestricted assets	<u>19,295</u>	<u>15,185</u>
Restricted assets:		
Cash and cash equivalents	61,548	96,222
Accrued interest receivable	613	1,557
Passenger facility charges receivable	4,247	—
Government grants receivable	14,891	3,457
Total restricted assets	<u>81,299</u>	<u>101,236</u>
Total current assets	<u>100,594</u>	<u>116,421</u>
Noncurrent assets:		
Restricted investments, at fair value	193,102	279,272
Capital assets	1,752,638	1,639,582
Deferred bond issue costs, net	17,813	12,365
Intangible and other assets, net	2,647	3,882
Total noncurrent assets	<u>1,966,200</u>	<u>1,935,101</u>
Total assets	<u>\$ 2,066,794</u>	<u>2,051,522</u>

See accompanying notes to basic financial statements.

<b>Liabilities and Net Assets</b>	<b>2006</b>	<b>2005</b>
Current liabilities:		
Payable from unrestricted assets:		
Accounts payable and accrued expenses	\$ 9,574	10,172
Deferred revenue	2,274	724
Due to the City of St. Louis, Missouri	3,236	3,178
Total payable from unrestricted assets	15,084	14,074
Payable from restricted assets:		
Current maturities of revenue bonds payable	13,960	23,390
Commercial paper payable	1,000	1,000
Accrued interest payable	22,533	23,036
Contracts and retainage payable	18,240	29,145
Total payable from restricted assets	55,733	76,571
Total current liabilities	70,817	90,645
Noncurrent liabilities:		
Revenue bonds payable	862,894	871,084
Other long-term liabilities	7,894	6,654
Total noncurrent liabilities	870,788	877,738
Total liabilities	941,605	968,383
Net assets:		
Invested in capital assets, net of related debt	991,086	941,531
Restricted:		
Bond reserve funds	78,414	95,145
Passenger facility charges	38,912	30,745
Unrestricted	16,777	15,718
Total net assets	1,125,189	1,083,139
Total liabilities and net assets	\$ 2,066,794	2,051,522

**LAMBERT – ST. LOUIS INTERNATIONAL AIRPORT**  
**(An enterprise fund of the City of St. Louis, Missouri)**

Statements of Revenues, Expenses, and Changes in Fund Net Assets

Years ended June 30, 2006 and 2005

(Dollars in thousands)

	<u>2006</u>	<u>2005</u>
Operating revenues:		
Aviation revenue:		
Airfield	\$ 49,789	42,788
Terminal and concourses	22,227	23,883
Hangars and other buildings	1,082	417
Cargo buildings	1,365	1,847
Concessions	21,606	18,930
Parking, net	12,982	11,753
Employee parking and miscellaneous	141	938
Lease revenue	6,543	9,767
Total operating revenue	<u>115,735</u>	<u>110,323</u>
Operating expenses:		
Personal services	36,918	35,016
Supplies	4,098	3,813
Equipment	294	760
Contractual services	32,848	31,578
Depreciation and amortization	31,025	31,757
Interfund services used	2,675	3,018
Total operating expenses	<u>107,858</u>	<u>105,942</u>
Operating income	<u>7,877</u>	<u>4,381</u>
Nonoperating revenues (expenses):		
Intergovernmental revenue	6,673	4,005
Investment revenue	10,302	9,793
Interest expense	(39,594)	(36,216)
Passenger facility charges	33,434	27,164
Amortization of bond issue costs	(872)	(1,279)
Other, net	(210)	(38)
Total nonoperating revenue, net	<u>9,733</u>	<u>3,429</u>
Income before capital contributions, transfers and other	<u>17,610</u>	<u>7,810</u>
Capital contributions	38,239	72,036
Transfers to the City of St. Louis, Missouri	(5,407)	(5,570)
Impairment of capital assets	(8,392)	—
Total capital contributions, transfers and other, net	<u>24,440</u>	<u>66,466</u>
Change in net assets	42,050	74,276
Total net assets, beginning of year	<u>1,083,139</u>	<u>1,008,863</u>
Total net assets, end of year	<u>\$ 1,125,189</u>	<u>1,083,139</u>

See accompanying notes to basic financial statements.

**LAMBERT – ST. LOUIS INTERNATIONAL AIRPORT**  
**(An enterprise fund of the City of St. Louis, Missouri)**

Statements of Cash Flows

Years ended June 30, 2006 and 2005

(Dollars in thousands)

	<u>2006</u>	<u>2005</u>
Cash flows from operating activities:		
Receipts from customers and users	\$ 110,657	118,783
Other operating cash receipts	141	938
Payments to suppliers of goods and services	(38,013)	(36,591)
Payments to employees	(35,343)	(33,108)
Payments for interfund services used	(2,617)	(2,993)
Net cash provided by operating activities	<u>34,825</u>	<u>47,029</u>
Cash flows from noncapital financing activities:		
Transfers to other funds of the City of St. Louis, Missouri	(5,407)	(5,570)
Net cash used in noncapital financing activities	<u>(5,407)</u>	<u>(5,570)</u>
Cash flows from capital and related financing activities:		
Cash collections from passenger facility charges	29,187	27,164
Receipt of federal financial assistance	33,478	79,075
Acquisition and construction of capital assets	(157,205)	(181,405)
Proceeds from issuance of refunding bonds	303,217	—
Proceeds from issuance of commercial paper	4,000	9,000
Principal paid on commercial paper	(4,000)	(18,000)
Cash paid for bond issuance costs	(8,080)	—
Principal paid on revenue bond maturities	(23,390)	(35,775)
Cash paid for bond refunding	(296,007)	—
Interest paid on revenue bonds	(44,716)	(46,575)
Net cash used in capital and related financing activities	<u>(163,516)</u>	<u>(166,516)</u>
Cash flows from investing activities:		
Purchases of investments	(1,725,091)	(1,846,899)
Proceeds from sales and maturities of investments	1,811,270	1,948,930
Investment income	11,028	12,374
Net cash provided by investing activities	<u>97,207</u>	<u>114,405</u>
Net decrease in cash and cash equivalents	<u>\$ (36,891)</u>	<u>(10,652)</u>
Cash and cash equivalents:		
Beginning of year:		
Unrestricted	\$ 8,162	9,355
Restricted	96,222	105,681
	<u>\$ 104,384</u>	<u>115,036</u>
End of year:		
Unrestricted	\$ 5,945	8,162
Restricted	61,548	96,222
	<u>\$ 67,493</u>	<u>104,384</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 7,877	4,381
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	31,025	31,757
Changes in assets and liabilities:		
Accounts receivable, net	(6,332)	9,844
Inventories	101	72
Intangible and other assets, net	(96)	(37)
Accounts payable and accrued expenses	(598)	506
Deferred revenue	1,550	(83)
Due to/from the City of St. Louis, Missouri	58	25
Other long-term liabilities	1,240	564
Total adjustments	<u>26,948</u>	<u>42,648</u>
Net cash provided by operating activities	<u>\$ 34,825</u>	<u>47,029</u>

Supplemental disclosure for noncash financing activities:

During the years ended June 30, 2006 and 2005, the Airport recorded unrealized losses of \$(9) and \$(2,920), respectively, which were recorded as a reduction to the carrying value of investments. In addition, during the year ended June 30, 2006, the Airport recorded an impairment of capital assets of \$8,392, which was recorded as a reduction to the carrying value of capital assets.

See accompanying notes to basic financial statements.

**LAMBERT – ST. LOUIS INTERNATIONAL AIRPORT**  
(An Enterprise Fund of the City of St. Louis, Missouri)

Notes to Basic Financial Statements

June 30, 2006 and 2005

(Dollars in thousands)

**(1) Summary of Significant Accounting Policies**

The Lambert – St. Louis International Airport (the Airport) is owned and operated by the City of St. Louis, Missouri (the City). The Airport is an enterprise fund of the City, and therefore, the basic financial statements of the Airport are not intended to present the financial position, changes in financial position, and cash flows of the City as a whole in conformity with U.S. generally accepted accounting principles.

**(a) Basis of Accounting**

Governmental enterprise funds are used to account for operations of governmental entities that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

The Airport prepares its financial statements in accordance with U.S. generally accepted accounting principles for governmental enterprise funds, which are similar to those for private business enterprises. Accordingly, the economic resource measurement focus and the accrual basis of accounting are used whereby revenues are recorded when earned and expenses are recorded when incurred.

In reporting its financial activity, the Airport applies all applicable Governmental Accounting Standards Board (GASB) pronouncements, as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) opinions, and Accounting Research Bulletins (ARBs) of the Committee on Accounting Procedures.

Enterprise funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with an enterprise fund's ongoing operations. Revenues from airlines, concessions, and parking are reported as operating revenues. Transactions that are capital, financing, or investing related are reported as nonoperating revenues. All expenses related to operating the Airport are reported as operating expenses. Interest expense and financing costs are reported as nonoperating expenses.

**(b) Accounts Receivable**

Accounts receivable at June 30, 2006 and 2005 consists of \$10,187 and \$3,520, respectively, due from air carriers and concessionaires with operations at the Airport. Such amounts are net of allowances for uncollectible accounts of \$746 and \$411 at June 30, 2006 and 2005.

Accounts receivable from air carriers includes unbilled aviation revenue for the fiscal year amounting to \$2,931 and \$(1,598) at June 30, 2006 and 2005, respectively, determined in accordance with the provisions of long-term use agreements between the Airport and the applicable air carriers.

**LAMBERT – ST. LOUIS INTERNATIONAL AIRPORT**  
(An Enterprise Fund of the City of St. Louis, Missouri)

Notes to Basic Financial Statements

June 30, 2006 and 2005

(Dollars in thousands)

Amounts due or payable under the use agreements are settled annually with applicable air carriers (see note 9).

As a result of the settlement process, as described in the preceding paragraph, made during fiscal year 2006, for fiscal year 2005, the airlines, at June 30, 2006, owed the Airport \$2,436, which is included in unbilled accounts receivable. These amounts are expected to be paid during January through June of 2007, and were included in accounts receivable at June 30, 2006. At June 30, 2005, all amounts related to the fiscal year 2005 settlement process have been collected from the airlines.

**(c) *Supplies and Materials***

Supplies and materials represent items used in support of operations and maintenance of the Airport. Supplies and materials amounts are recorded at cost using a method that approximates the first-in, first-out method.

**(d) *Passenger Facility Charges (PFCs)***

The Airport collects a \$4.50 (in dollars) facility charge per enplaned passenger to fund approved FAA projects. The PFCs are withheld by the respective airlines for each ticket purchased and passenger transfer made in St. Louis and remitted to the Airport one month after the month of receipt, less an \$0.11 (in dollars) per ticket operating fee retained by the airlines. PFCs represent an exchange-like transaction, and are recognized as nonoperating revenue based upon passenger enplanements. As of June 30, 2006, passenger facility charges receivable were \$4,247. These amounts were collected during July and August of 2007.

**(e) *Capital Assets***

Capital assets are recorded at cost. Depreciation, including depreciation recognized on assets acquired through government grants and other aid, is computed on the straight-line method over the estimated useful lives of the various classes of assets. Land is recorded at cost, which in addition to the purchase price, includes appraisal and legal fees, demolition, and homeowner relocation costs. Net interest costs on funds borrowed to finance the construction of capital assets are capitalized and amortized over the life of the related asset.

Airport management has evaluated prominent events or changes in circumstances affecting capital assets to determine whether any impairments of capital assets have occurred (see note 14). Such events or changes in circumstances that were considered by Airport management to be indicative of impairment include evidence of physical damage, enactment or approval of laws or regulations or other changes in environmental factors, technological changes or evidence of obsolescence, changes in the manner or duration of use of a capital asset, and construction stoppage.

**(f) *Bond Discounts and Premiums, Deferred Amounts on Refunding, and Deferred Bond Issue Costs***

Bond discounts, bond premiums, and deferred amounts on refunding are recorded as reductions of or additions to the related debt obligation as appropriate. Such amounts are deferred and amortized over the life of the bonds using the bonds outstanding method, which approximates the interest method.

**LAMBERT – ST. LOUIS INTERNATIONAL AIRPORT**  
(An Enterprise Fund of the City of St. Louis, Missouri)

Notes to Basic Financial Statements

June 30, 2006 and 2005

(Dollars in thousands)

Deferred bond issue costs represents costs related to the issuance of the Airport's outstanding revenue bonds. Such amounts are deferred and amortized over the life of the bonds using the bonds outstanding method, which approximates the interest method.

**(g) *Intangible and Other Assets***

Intangible and other assets include \$0 and \$1,139 at June 30, 2006 and 2005, respectively, representing a leasehold interest in certain gates operated by American Airlines as of June 30, 2006 and 2005. Intangible and other assets also include easements of \$2,647 and \$2,743 at June 30, 2006 and 2005, respectively, which are being amortized on the straight-line method over 40 years.

**(h) *Accounts Payable and Accrued Expenses***

Accounts payable and accrued expenses at June 30, 2006 and 2005 is comprised of \$6,200 and \$6,219, respectively, of accrued salaries and benefits; \$3,168 and \$3,817, respectively, due to vendors and contractors; and \$206 and \$136, respectively, of other accrued expenses.

**(i) *Leases***

Lease revenue during 2006 and 2005 includes \$3,804 and \$7,607, respectively, of income from American Airlines relating to equipment leases (see note 10).

**(j) *Vacation and Sick Leave Benefits***

Under the terms of the City's personnel policy, City employees are granted vacation and sick leave. Employees who have an unused sick leave balance may, at retirement, elect to receive payment for one-half of the sick leave balance. As an estimate of the portion of sick leave that will result in termination payments, a liability has been recorded on the accompanying financial statements within accounts payable and accrued expenses representing one-half of the accumulated sick leave balances for those employees who will be eligible to retire within five years. The liability totaled \$1,944 as of June 30, 2006 and 2005, respectively, and is included in accounts payable and accrued expenses.

The vacation liability reflects amounts attributable to employee services already rendered and are cumulative. The liability totaled \$3,229 and \$3,121 as of June 30, 2006 and 2005, respectively, and is included in accounts payable and accrued expenses.

**(k) *Capital Contributions***

Capital contributions represent government grants and other aid used to fund capital projects. Capital contributions are recognized as revenue when the expenditure is made and amounts become subject to claim for reimbursement. Amounts received from other governments that are not restricted for capital purposes are reflected as nonoperating intergovernmental revenue.

**(l) *Statements of Cash Flows***

For purposes of the statements of cash flows, cash and cash equivalents is defined as all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased.

**LAMBERT – ST. LOUIS INTERNATIONAL AIRPORT**  
(An Enterprise Fund of the City of St. Louis, Missouri)

Notes to Basic Financial Statements

June 30, 2006 and 2005

(Dollars in thousands)

**(m) Use of Estimates**

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

**(n) Reclassification**

Certain 2005 amounts have been reclassified to conform with fiscal year 2006 presentation.

**(2) Cash and Investments**

Investments are recorded at fair value. Fair value for investments is determined by closing market prices at year-end as reported by the respective investment custodian.

The Airport deposits all cash with the Office of the Treasurer of the City, which maintains all banking relationships for the Airport. Additionally, all investment decisions are made by the City Treasurer and the City's agents.

Certificates of deposit are defined as investments for balance sheet classification and cash flow purposes; for custodial risk disclosure, however, they are described below as cash deposits. In addition, money market mutual funds are classified as cash and cash equivalents on the balance sheet, but as investments for custodial risk disclosure.

As of June 30, 2006 and 2005, the Airport had the following cash deposits and investments:

	<u>2006</u>	<u>2005</u>
Federal National Mortgage Association	\$ 33,969	133,258
Federal Home Loan Mortgage Corporation	128,701	85,619
Federal Farm Credit Discount Note	6,717	—
United States Treasuries	15,066	15,192
Government Backed Trusts	927	977
Commercial Paper	7,722	7,479
Money Market Mutual Funds	19,767	42,655
Certificates of Deposit	—	36,747
Other Cash Deposits	47,726	61,729
	<u>\$ 260,595</u>	<u>383,656</u>

State statutes and City investment policies authorize the deposit of funds in financial institutions and trust companies. Investments may be made in obligations of the United States Government or any agency or instrumentality thereof; bonds of the State of Missouri, the City of St. Louis, Missouri, or any city within the state with a population of 400,000 inhabitants or more; or time certificates of deposit; provided,



**LAMBERT – ST. LOUIS INTERNATIONAL AIRPORT**  
(An Enterprise Fund of the City of St. Louis, Missouri)

Notes to Basic Financial Statements

June 30, 2006 and 2005

(Dollars in thousands)

however, that no such investment shall be purchased at a price in excess of par. In addition, the City may enter into repurchase agreements maturing and becoming payable within 90 days secured by United States Treasury obligations or obligations of the United States Government agencies or instrumentalities of any maturity as provided by law. City funds in the form of cash on deposit or time certificates of deposit are required to be insured or collateralized by authorized investments held in the City's name.

**(a) Interest Rate Risk**

The Airport seeks to minimize its exposure to fair value losses arising from changes in interest rates by selecting investments in adherence to the Investment Policy for the City of St. Louis, Missouri (Investment Policy). The Investment Policy provides that, to the extent possible, the City shall attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow, the City will not directly invest in securities or make a time deposit with a stated maturity or more than five years from the date of purchase. The average maturity for collateral provided to the City for deposits in connection with a repurchase agreement shall not exceed five years without the written approval of the Treasurer. In connection with any outstanding bond issue, debt service reserve funds may be invested to a maximum maturity of 15 years, and up to 30 years with the approval of the Treasurer.

The investments had the following maturities on June 30, 2006:

	Fair value	Investment maturities (in years)			
		Less than 1	1-5	6-10	More than 10
Federal National Mortgage Association	\$ 33,969	30,600	—	3,369	—
Federal Home Loan Mortgage Corporation	128,701	128,701	—	—	—
Federal Farm Credit Discount Note	6,717	6,717	—	—	—
United States Treasuries	15,066	15,066	—	—	—
Government Backed Trusts	927	—	—	927	—
Commercial Paper	7,722	7,722	—	—	—
Money Market Mutual Funds	19,767	19,767	—	—	—
	<u>\$ 212,869</u>	<u>208,573</u>	<u>—</u>	<u>4,296</u>	<u>—</u>

**LAMBERT – ST. LOUIS INTERNATIONAL AIRPORT**  
(An Enterprise Fund of the City of St. Louis, Missouri)

Notes to Basic Financial Statements

June 30, 2006 and 2005

(Dollars in thousands)

The investments had the following maturities on June 30, 2005:

	<u>Fair value</u>	<u>Investment maturities (in years)</u>			
		<u>Less than 1</u>	<u>1-5</u>	<u>6-10</u>	<u>More than 10</u>
Federal National Mortgage Association	\$ 133,258	129,519	—	—	3,739
Federal Home Loan Mortgage Corporation	85,619	72,702	12,917	—	—
United States Treasuries	15,192	15,192	—	—	—
Government Backed Trusts	977	—	—	—	977
Commercial Paper	7,479	7,479	—	—	—
Money Market Mutual Funds	42,655	42,655	—	—	—
	<u>\$ 285,180</u>	<u>267,547</u>	<u>12,917</u>	<u>—</u>	<u>4,716</u>

**(b) Credit Risk**

The Investment Policy provides that investments of the City be rated in one of the three-highest ratings categories by Moody's Investors Service, Standard & Poor's Corporation, or Fitch's Ratings Service.

The Airport's investments in Federal National Mortgage Association, Federal Home Loan Mortgage Corporation, and Federal Farm Credit Discount notes as of June 30, 2006 and 2005 were rated AAA by Moody's Investor Service and Standard and Poor's. The Airport's investments in Government Backed Trusts as of June 30, 2006 and 2005 were rated AAA by Standard and Poor's. The Airport's investments in Commercial Paper as of June 30, 2006 and 2005 were rated P-1 by Moody's Investor Service and A-1 by Standard and Poor's.

**(c) Custodial Credit Risk**

Custodial credit risk is the risk that, in the event of the failure of a counterparty, the Airport will not be able to recover the value of the investments or collateral securities that are in the possession of the counterparty.

The Investment Policy requires that all cash deposits, time certificates of deposit, deposits with listed institutions, and repurchase agreements be covered by adequate pledged collateral. Acceptable collateral includes U.S. Treasury obligations, other interest-bearing securities guaranteed as to principal and interest by the U.S. or an agency or instrumentality of the U.S., bonds of the State of Missouri, or bonds of the City. The market value of the principal and accrued interest of the collateral must equal 103% of the deposits secured, less any amount subject to federal deposit insurance. All City securities and securities pledged as collateral must be held in a segregated account on behalf of the City by an independent third party with whom the City has a current custodial agreement and has been designated by the Treasurer and Funds Committee as eligible to serve in such a capacity.

# LAMBERT – ST. LOUIS INTERNATIONAL AIRPORT

(An Enterprise Fund of the City of St. Louis, Missouri)

## Notes to Basic Financial Statements

June 30, 2006 and 2005

(Dollars in thousands)

At June 30, 2006 and 2005, all Airport investments and all collateral securities pledged against Airport deposits are held by the counterparty's trust department or agent in the City's name.

### (d) *Concentration of Credit Risk*

The Investment Policy of the City provides that, with the exception of U.S. Treasury Securities, no more than 35% of the City's total investment portfolio will be invested in a single security type or with a single financial institution. The Airport has no separate policy related to the concentration of credit risk, and the Airport's concentration of credit risk is considered in conjunction with the review of the concentration of credit risk for the City's total investment portfolio.

At June 30, 2006, the concentration of the Airport's investments (excluding cash deposits) was as follows:

Federal National Mortgage Association	15.96%
Federal Home Loan Mortgage Corporation	60.46
Federal Farm Credit Discount Note	3.16
United States Treasuries	7.08
Government Backed Trusts	0.42
Commercial Paper	3.63
Money Market Mutual Funds	9.29
	<hr/>
	100.00%
	<hr/>

At June 30, 2005, the concentration of the Airport's investments (excluding cash deposits) was as follows:

Federal National Mortgage Association	46.73%
Federal Home Loan Mortgage Corporation	30.02
United States Treasuries	5.33
Government Backed Trusts	0.34
Commercial Paper	2.62
Money Market Mutual Funds	14.96
	<hr/>
	100.00%
	<hr/>

**LAMBERT – ST. LOUIS INTERNATIONAL AIRPORT**  
(An Enterprise Fund of the City of St. Louis, Missouri)

Notes to Basic Financial Statements

June 30, 2006 and 2005

(Dollars in thousands)

**(3) Restricted Assets**

Cash and investments, restricted in accordance with City ordinances and bond provisions, are as follows at June 30, 2006 and 2005:

	<u>2006</u>	<u>2005</u>
Airport Bond Fund:		
Debt Service Account	\$ 36,872	53,869
Debt Service Reserve Account	40,929	41,276
Airport Renewal and Replacement Fund	3,500	3,500
Passenger Facility Charge Fund	30,018	4,757
Airport Development Fund	62,650	67,651
Airport Construction Fund	78,429	202,385
Drug Enforcement Agency Funds	2,252	2,056
	<u>\$ 254,650</u>	<u>375,494</u>

City ordinances require that revenues derived from the operation of the Airport be deposited into the unrestricted Airport Revenue Fund. From this fund, the following allocations are made (as soon as practicable in each month after the deposit of revenues, but no later than five business days before the end of each month) in the following order of priority:

- (a) Unrestricted Airport Operation and Maintenance Fund: an amount sufficient to pay the estimated operation and maintenance expenses during the next month.
- (b) Airport Bond Fund: for credit to the Debt Service Account if and to the extent required so that the balance in said account shall equal the accrued aggregate debt service on the bonds, to the last day of the then current calendar month. This account shall be used only for payment of bond principal and interest as the same shall become due.
- (c) Airport Bond Fund: for credit to the Debt Service Reserve Account: an amount sufficient to maintain a balance in such account equal to the debt service reserve requirement (an amount equal to the greatest amount of principal and interest due in any future fiscal year). This account shall be available for deficiencies in the Debt Service Account on the last business day of any month, and the balance shall be transferred to the Debt Service Account whenever the balance in the Debt Service Account (before the transfer) is not sufficient to pay fully all outstanding bonds.
- (d) Airport Renewal and Replacement Fund: an amount equal to \$57, provided that no deposit shall be required to be made into said fund whenever and as long as uncommitted moneys in said fund are equal to or greater than \$3,500 or such larger amount as the City shall determine is necessary for purposes of said fund and provided further that, if any such monthly allocation to said fund shall be less than the required amounts, the amount of the next succeeding monthly payments shall be increased by the amount of such deficiency. This fund shall be used for paying costs of renewal or replacement of capital items used in connection with the operation of the Airport.

**LAMBERT – ST. LOUIS INTERNATIONAL AIRPORT**  
(An Enterprise Fund of the City of St. Louis, Missouri)

Notes to Basic Financial Statements

June 30, 2006 and 2005

(Dollars in thousands)

- (e) A subaccount in the Airport Revenue Fund: an amount determined from time-to-time by the City such that, if deposits were made in amounts equal to such amount in each succeeding month during each Airport fiscal year, the balance in such subaccount shall equal the amounts payable to the City with respect to such Airport fiscal year for the payment of 5% of gross receipts from operations of the Airport. A maximum of 80% of the monthly transfer to this subaccount may be paid to the City during the Airport's fiscal year. The final installment may only be paid to the City upon delivery of the Airport's audited financial statements to the Airport Bond Fund Trustee.
- (f) Airport Contingency Fund: an amount determined at the discretion of Airport management to be used for the purchase or redemption of any bonds; payments of principal or redemption price of interest on any subordinated debt; improvements, extensions, betterments, renewals, replacements, repairs, maintenance, or reconstruction of any properties or facilities of the Airport; or the provision of one or more reserves. These funds can also be used for any other corporate purpose of the Airport, the local airport system, or other local facilities that are owned or operated by the City and are directly related to the actual transportation of passengers or property.
- (g) The remaining balance in the Revenue Fund shall be deposited into the Airport Development Fund. This fund shall be used for extensions and improvements to the Airport, including equipment acquisition.

City ordinances provide that, in the event the sums on deposit in the Airport Bond Fund – Debt Service and Debt Service Reserve Accounts are insufficient to pay accruing interest, maturing principal or both, the balance in the Airport Contingency Fund, Airport Development Fund, and Airport Renewal and Replacement Fund may be drawn upon, to the extent necessary, to provide for the payment of such interest, principal, or both. Any sums so withdrawn from these accounts for said purposes shall be restored thereto in the manner provided for in their original establishment. City ordinances also provide that the principal proceeds from the sale of Airport revenue bonds shall be held in the Airport Construction Fund from which they shall be disbursed for the purposes contemplated in these ordinances.

**LAMBERT – ST. LOUIS INTERNATIONAL AIRPORT**  
(An Enterprise Fund of the City of St. Louis, Missouri)

Notes to Basic Financial Statements

June 30, 2006 and 2005

(Dollars in thousands)

**(4) Capital Assets**

Following is a summary of the changes in capital assets for the year ended June 30, 2006:

	<b>Balances June 30, 2005</b>	<b>Additions</b>	<b>Retirements</b>	<b>Transfers</b>	<b>Balances June 30, 2006</b>
Capital assets being depreciated:					
Pavings	\$ 310,841	668	(5,398)	553,422	859,533
Buildings and facilities	376,094	6,581	(126)	8,222	390,771
Equipment	58,453	3,763	(1,601)	1,981	62,596
	<u>745,388</u>	<u>11,012</u>	<u>(7,125)</u>	<u>563,625</u>	<u>1,312,900</u>
Less accumulated depreciation:					
Pavings	(184,615)	(13,073)	1,120	—	(196,568)
Buildings and facilities	(221,141)	(12,832)	121	—	(233,852)
Equipment	(48,913)	(3,886)	1,582	—	(51,217)
Total accumulated depreciation	<u>(454,669)</u>	<u>(29,791)</u>	<u>2,823</u>	<u>—</u>	<u>(481,637)</u>
Total capital assets being depreciated	<u>290,719</u>	<u>(18,779)</u>	<u>(4,302)</u>	<u>563,625</u>	<u>831,263</u>
Capital assets not being depreciated:					
Land	829,024	36,960	(5,444)	48	860,588
Construction in progress	519,839	104,621	—	(563,673)	60,787
Total capital assets not being depreciated	<u>1,348,863</u>	<u>141,581</u>	<u>(5,444)</u>	<u>(563,625)</u>	<u>921,375</u>
	<u>\$ 1,639,582</u>	<u>122,802</u>	<u>(9,746)</u>	<u>—</u>	<u>1,752,638</u>

**LAMBERT – ST. LOUIS INTERNATIONAL AIRPORT**  
(An Enterprise Fund of the City of St. Louis, Missouri)

Notes to Basic Financial Statements

June 30, 2006 and 2005

(Dollars in thousands)

Following is a summary of the changes in capital assets for the year ended June 30, 2005:

	<b>Balances June 30, 2004</b>	<b>Additions</b>	<b>Retirements</b>	<b>Transfers</b>	<b>Balances June 30, 2005</b>
Capital assets being depreciated:					
Pavings	\$ 303,536	185	—	7,120	310,841
Buildings and facilities	372,051	722	—	3,321	376,094
Equipment	56,798	1,894	(239)	—	58,453
	<u>732,385</u>	<u>2,801</u>	<u>(239)</u>	<u>10,441</u>	<u>745,388</u>
Less accumulated depreciation:					
Pavings	(174,024)	(10,591)	—	—	(184,615)
Buildings and facilities	(217,348)	(3,954)	161	—	(221,141)
Equipment	(34,929)	(14,043)	59	—	(48,913)
Total accumulated depreciation	<u>(426,301)</u>	<u>(28,588)</u>	<u>220</u>	<u>—</u>	<u>(454,669)</u>
Total capital assets being depreciated	<u>306,084</u>	<u>(25,787)</u>	<u>(19)</u>	<u>10,441</u>	<u>290,719</u>
Capital assets not being depreciated:					
Land	785,535	43,489	—	—	829,024
Construction in progress	382,533	147,747	—	(10,441)	519,839
Total capital assets not being depreciated	<u>1,168,068</u>	<u>191,236</u>	<u>—</u>	<u>(10,441)</u>	<u>1,348,863</u>
	<u>\$ 1,474,152</u>	<u>165,449</u>	<u>(19)</u>	<u>—</u>	<u>1,639,582</u>

Construction in progress as of June 30, 2006 and June 30, 2005 consists of various improvements to the airfield and terminal buildings, as well as property purchased on which the Airport's expansion facilities will be constructed.

The estimated useful lives of capital assets are as follows:

	<b>Years</b>
Pavings	18 – 25
Buildings and facilities	20 – 30
Equipment	2 – 20

**LAMBERT – ST. LOUIS INTERNATIONAL AIRPORT**  
(An Enterprise Fund of the City of St. Louis, Missouri)

Notes to Basic Financial Statements

June 30, 2006 and 2005

(Dollars in thousands)

**(5) Change in Noncurrent Liabilities**

Following is a summary of the changes in noncurrent liabilities for the year ended June 30, 2006:

	<b>Revenue bonds payable</b>	<b>Other long-term liabilities</b>
Balances, beginning of year	\$ 871,084	6,654
Revenue bonds refunded	(273,955)	—
Revenue bonds issued	263,695	—
Revenue bonds reclassified as current	(13,960)	—
Premiums and deferred amounts on refunding from revenue bonds issued, net	15,710	—
Amortization of discounts, premiums, and deferred amounts on refunding, net	320	—
Payments of principal outstanding on forward purchase agreements (see note 8)	—	(199)
Net pension obligation incurred (see note 16)	—	1,594
Net decrease in other liabilities	—	(155)
Balances, end of year	<u>\$ 862,894</u>	<u>7,894</u>

Following is a summary of the changes in noncurrent liabilities for the year ended June 30, 2005:

	<b>Revenue bonds payable</b>	<b>Other long-term liabilities</b>
Balances, beginning of year	\$ 893,248	6,090
Revenue bonds reclassified as current	(23,390)	—
Amortization of discounts, premiums, and deferred amounts on refunding	1,226	—
Payments of principal outstanding on forward purchase agreements (see note 8)	—	(735)
Net pension obligation incurred (see note 16)	—	1,663
Net decrease in other liabilities	—	(364)
Balances, end of year	<u>\$ 871,084</u>	<u>6,654</u>



**LAMBERT – ST. LOUIS INTERNATIONAL AIRPORT**  
(An Enterprise Fund of the City of St. Louis, Missouri)

Notes to Basic Financial Statements

June 30, 2006 and 2005

(Dollars in thousands)

**(6) Revenue Bonds Payable**

Bonds outstanding at June 30, 2006 and 2005 are summarized as follows:

	<b>2006</b>	<b>2005</b>
Bond Series 1996, interest rates ranging from 5.25% to 5.35%, payable in varying amounts through 2008	\$ 8,340	12,205
Bond Series 1997, Series B, interest rates ranging from 5.25% to 6%, payable in varying amounts through 2028	149,435	190,500
Bond Series 1998, interest rates ranging from 4.0% to 5.13%, payable in varying amounts through 2016	59,090	63,620
Bond Series 2001A, interest rates ranging from 4.13% to 5.63%, payable in varying amounts through 2027	209,205	435,185
Bond Series 2002, Series A, B, and C, interest rates ranging from 2.50% to 5.50%, payable in varying amounts through 2033	100,980	112,185
Bond Series 2003A, interest rates ranging from 2.38% to 5.25%, payable in varying amounts through 2019	70,340	70,340
Bond Series 2003B, interest rate of 2.05%, payable in varying amounts through 2006	—	10,700
Bond Series 2005, interest rate ranging from 4.00% to 5.50%, payable in varying amounts through 2032	263,695	—
	<u>861,085</u>	<u>894,735</u>
Less:		
Current maturities	(13,960)	(23,390)
Unamortized discounts and premiums	41,943	4,636
Deferred amounts on refunding	(26,174)	(4,897)
	<u>1,809</u>	<u>(23,651)</u>
	<u>\$ 862,894</u>	<u>871,084</u>

Interest payments on the above issues are due semiannually on January 1 and July 1.

On July 7, 2005, the Airport issued \$263,695 in Series 2005 Revenue Refunding Bonds with an average interest rate of 5.47 percent to advance refund \$37,575 of outstanding 1997A Series Revenue Refunding bonds, \$225,980 of outstanding 2001A Series Revenue Refunding bonds, and \$10,400 of outstanding 2002A Series Revenue Refunding bonds with an average interest rate of 5.31 percent. The net proceeds of \$293,331 (after the addition of a net issue premium of \$39,522 and payment of \$9,886 in underwriting fees, insurance, and other issuance costs) plus an additional \$6,095 of 1997A and 2001A Series debt service monies were deposited into an irrevocable trust with an escrow agent to provide for the refunded debt service payments. At June 30, 2006, \$37,575 of 1997A Series Revenue Refunding bonds, \$225,980 of 2001A Series Revenue Refunding bonds, and \$10,400 of 2002A Series Revenue Refunding bonds are considered defeased. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the Airport's financial statements.

**LAMBERT – ST. LOUIS INTERNATIONAL AIRPORT**  
(An Enterprise Fund of the City of St. Louis, Missouri)

Notes to Basic Financial Statements

June 30, 2006 and 2005

(Dollars in thousands)

The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$23,812. This difference, reported in the accompanying financial statements as a deduction from bonds payable, is being charged to operations through the year 2031 using the bonds outstanding method. The Airport completed the advance refunding to reduce its total debt service payments over the next 25 years by \$16,536 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of \$3,432.

The deferred amounts on refunding of \$26,174 and \$4,897 at June 30, 2006 and 2005, respectively, relate to the refunded Bond Series 1984, Bond Series 1987, Bond Series 1992, Bond Series 1997A, Bond Series 2001A, Bond Series 2002A, Bond Series 2003A, and Bond Series 2003B, and are included in revenue bonds payable within the accompanying balance sheets. The deferred amounts on refunding are amortized as a component of interest expense using the bonds outstanding method over the life of the new bonds.

Management is not aware of any violations of significant bond covenants with respect to the above issues at June 30, 2006 and 2005.

As of June 30, 2006, the Airport's aggregate debt service requirements for the next five years and in five-year increments thereafter are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year ending June 30:			
2007	\$ 13,960	44,723	58,683
2008	25,090	43,810	68,900
2009	21,725	42,667	64,392
2010	21,670	41,530	63,200
2011	24,015	40,317	64,332
2012-2016	172,030	177,690	349,720
2017-2021	181,790	128,534	310,324
2022-2026	178,415	82,033	260,448
2027-2031	178,875	35,000	213,875
2032-2033	43,515	1,493	45,008
	<u>\$ 861,085</u>	<u>637,797</u>	<u>1,498,882</u>

In the current and prior years, the Airport advance refunded various Airport Revenue Bonds by placing funds in an irrevocable trust to provide for all future debt service payments on these bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the Airport's financial statements. At June 30, 2006 and 2005, \$332,640 and \$74,255, respectively, of these outstanding bonds are considered defeased.

**LAMBERT – ST. LOUIS INTERNATIONAL AIRPORT**  
(An Enterprise Fund of the City of St. Louis, Missouri)

Notes to Basic Financial Statements

June 30, 2006 and 2005

(Dollars in thousands)

**(7) Commercial Paper**

On May 1, 2004, the City's Board of Alderman authorized the Airport to issue Commercial Paper Notes, 2004 Program, in an aggregate principal amount not to exceed \$125,000 outstanding at any one time. As of June 30, 2006 and 2005, commercial paper of \$1,000 was outstanding. At June 30, 2006 and 2005, respectively, this commercial paper bore interest at rates of 3.64% and 2.52%, respectively, and was due on July 5, 2006 and August 16, 2005, respectfully.

Following is a summary of the changes in commercial paper payable for the years ended June 30, 2006 and 2005:

	<u>2006</u>	<u>2005</u>
Balances, beginning of year	\$ 1,000	10,000
Commercial paper issued	4,000	9,000
Commercial paper repaid	<u>(4,000)</u>	<u>(18,000)</u>
Balances, end of year	<u>\$ 1,000</u>	<u>1,000</u>

**(8) Forward Purchase Agreements**

**(a) Objective of the forward purchase agreements**

The Airport has entered into nine forward purchase agreements with financial institutions that guarantee the Airport a fixed rate of return on the invested proceeds of the debt service and debt service reserve funds of certain of the Airport's bond issuances. The Airport entered into these agreements in order to ensure that its investments will earn a guaranteed rate of interest regardless of fluctuations in market interest rates.

**LAMBERT – ST. LOUIS INTERNATIONAL AIRPORT**  
(An Enterprise Fund of the City of St. Louis, Missouri)

Notes to Basic Financial Statements

June 30, 2006 and 2005

(Dollars in thousands)

**(b) Terms**

The terms of forward purchase agreements I – V, as of June 30, 2006, are as follows:

	<b>I</b>	<b>II</b>	<b>III</b>	<b>IV</b>	<b>V</b>
Date of origin	June 1995	September 1997	October 2000	December 2003, as amended July 2005	December 2003
Underlying bond account(s)	Series 1996, Series 2002C, Series 2003B debt service	Series 1997 debt service reserve	Series 2003A debt service reserve	Series 1997A, Series 2005 debt service	Series 1997B debt service
Guaranteed interest rate	6.34%	6.18%	6.47%	5.34%	5.35%
Lump-sum payment received at beginning of agreement	\$ 7,209	N/A	N/A	N/A	N/A
Date of termination (upon maturity of bond series)	2015	2027	2008	2027	2027
Notional amount (representing balance in applicable accounts) \$	5,387	14,970	7,034	6,875	20,494
Obligation (representing the unamortized portion of lump-sum payment) recorded in other long-term liabilities on the balance sheet at June 30, 2006	\$ 1,032	N/A	N/A	N/A	N/A

**LAMBERT – ST. LOUIS INTERNATIONAL AIRPORT**  
(An Enterprise Fund of the City of St. Louis, Missouri)

Notes to Basic Financial Statements

June 30, 2006 and 2005

(Dollars in thousands)

The terms of forward purchase agreements VI – IX, as of June 30, 2006, are as follows:

	<b>VI</b>	<b>VII</b>	<b>VIII</b>	<b>IX</b>
Date of origin	December 2003, as amended July 2005	December 2003, as amended July 2005	December 2003	December 2003
Underlying bond account(s)	Series 2001A, Series 2005 debt services	Series 2002A, Series 2005 debt services	Series 2002B debt services	Series 2003A debt services
Guaranteed interest rate	5.432%	5.473%	5.332%	5.579%
Lump-sum payment received at beginning of agreement	N/A	N/A	N/A	N/A
Date of termination (upon maturity of bond series)	2031	2032	2032	2018
Notional amount (representing balance in applicable accounts)	\$ 13,333	2,831	1,389	1,698
Obligation (representing the unamortized portion of lump- sum payment) recorded in other long-term liabilities on the balance sheet at June 30, 2006	N/A	N/A	N/A	N/A

In July 2005, forward purchase agreements IV, VI, VII were amended to replace Bond Series 1997A, Bond Series 2001A, and Bond Series 2002A, respectively, with Bond Series 2005 bonds defeased with the issuance of the Series 2005 Bonds. No payments were made in consideration of this amendment.

For forward purchase agreement I, in exchange for a lump-sum interest payment of \$7,209 received, the Airport has contracted to buy qualified eligible securities from a financial institution every month until the bonds mature, are called, or are refinanced. This institution receives the actual interest earned on the securities purchased every month. The difference between the fixed interest rate earned by the Airport and the variable interest rate paid to the financial institution is recorded as a net adjustment to net interest expense. The Airport's obligation under this forward purchase agreement, representing the unamortized portion of the original lump-sum interest payment received by the Airport, is \$1,032 and \$1,231 at June 30, 2006 and 2005, respectively, and is recorded in other long-term liabilities.

**LAMBERT – ST. LOUIS INTERNATIONAL AIRPORT**  
(An Enterprise Fund of the City of St. Louis, Missouri)

Notes to Basic Financial Statements

June 30, 2006 and 2005

(Dollars in thousands)

For forward purchase agreements II through IX, the Airport has contracted to buy qualified eligible securities from a financial institution on a monthly or semiannual basis and the financial institution has guaranteed that the securities will earn a stated rate. To the extent the securities earn a greater rate of return, the Airport is required to refund the difference to the financial institution; if a lesser rate is earned, the financial institution absorbs the loss.

**(c) Fair Value**

As disclosed above, the Airport's obligation associated with forward purchase agreement I is recorded on the financial statements within other long-term liabilities. This liability represents the unamortized portion of the initial lump-sum payment received pursuant to this agreement.

The fair value of the remaining forward purchase agreements, under which no initial lump-sum payments were received, is not recorded on the financial statements. As of June 30, 2006, these fair values are as follows:

<u>Agreement</u>	<u>Fair value</u>
II	\$ 2,963
III	267
IV	57
V	240
VI	1,050
VII	182
VIII	45
IX	208

These fair values were calculated using the following method: the variable rate of return to be retained by the financial institutions was assumed to be the rate of a return available at June 30, 2006 for a United States Treasury obligation with a comparable length of time remaining until maturity. The variable rate of return was then subtracted from the fixed rate of return guaranteed to the Airport, and multiplied by the securities required to be invested under the agreements for all future periods. The resulting difference in future cash flows was discounted to the present at the rate of a return available at June 30, 2006 for a United States Treasury obligation with a comparable length of time remaining until maturity.

**(d) Credit Risk**

The forward purchase agreements' fair value represents the Airport's credit exposure to the financial institutions as of June 30, 2006. Should the financial institutions fail to perform according to the terms of the agreements, the Airport faces a maximum possible loss equivalent to the fair value of agreements II through IX of \$5,012.

**LAMBERT – ST. LOUIS INTERNATIONAL AIRPORT**  
(An Enterprise Fund of the City of St. Louis, Missouri)

Notes to Basic Financial Statements

June 30, 2006 and 2005

(Dollars in thousands)

**(e) Interest Rate Risk**

The forward purchase agreements expose the Airport to interest rate risk. Should interest rates increase above the levels guaranteed by the agreements, the financial institutions, and not the Airport, would realize this increase in investment earnings.

**(f) Termination Risk**

Either the Airport or the financial institutions may terminate the agreements under certain conditions. Should such a termination take place, the Airport would either owe a termination payment to the financial institutions or be entitled to a termination payment from the financial institutions, depending upon market interest rate conditions at the time of the termination.

**(9) Use Agreements and Leases with Signatory Air Carriers**

Effective January 1, 2006, the Airport entered into new long-term use and lease agreements with signatory air carriers that expires on June 30, 2011. The previous long-term use and lease agreements with signatory air carriers expired on December 31, 2005.

Under the terms of the current use and lease agreements, the air carriers have agreed to pay airfield landing fees; terminal and concourse rentals; hangar, cargo, and maintenance facility rentals; and certain miscellaneous charges in consideration for use of the Airport. The use and lease agreements also require the Airport to make certain capital improvements and to provide maintenance of certain Airport facilities. Payments by the air carriers are determined as follows:

- (a) Landing fees are calculated based on estimated operating and maintenance expenses of the airfield and allocated to the air carriers on the basis of landing weights. Landing fee revenues are adjusted each year by retroactive rate adjustment that is calculated as the difference between estimated and actual costs incurred and estimated and actual landing weights. These revenues are included in aviation revenue – airfield.
- (b) Rentals are calculated based on estimated operating and maintenance expenses of the terminal and concourse areas and hangars, cargo, and maintenance facilities, and allocated to the air carriers on the basis of square footage utilized. Rental revenue is adjusted each year by retroactive rate adjustment that is calculated as the difference between estimated and actual costs incurred. These revenues are included in aviation revenue – terminal and concourses, hangars, and other buildings or cargo buildings, respectively.
- (c) Miscellaneous income is derived from the air carriers for their use of sanitary disposal facilities and airline service buildings.

During fiscal years 2006 and 2005, revenues from signatory air carriers accounted for 60% and 56% of total Airport operating revenues.

Minimum future rentals for each year in the next five years and in the aggregate are not determinable given the method of calculation.

**LAMBERT – ST. LOUIS INTERNATIONAL AIRPORT**  
(An Enterprise Fund of the City of St. Louis, Missouri)

Notes to Basic Financial Statements

June 30, 2006 and 2005

(Dollars in thousands)

The following is a summary of aviation revenue by category and source from signatory and nonsignatory air carriers for the years ended June 30, 2006 and 2005:

<b>2006</b>			
	<b>Signatory</b>	<b>Nonsignatory</b>	<b>Total</b>
Airfield	\$ 41,721	8,068	49,789
Terminal and concourses	21,498	729	22,227
Hangars and other buildings	1,052	30	1,082
Cargo buildings	1,339	26	1,365
	<u>\$ 65,610</u>	<u>8,853</u>	<u>74,463</u>
<b>2005</b>			
	<b>Signatory</b>	<b>Nonsignatory</b>	<b>Total</b>
Airfield	\$ 35,569	7,219	42,788
Terminal and concourses	23,469	414	23,883
Hangars and other buildings	387	30	417
Cargo buildings	1,847	—	1,847
	<u>\$ 61,272</u>	<u>7,663</u>	<u>68,935</u>

No assurance can be given as to the levels of aviation activity that will be achieved at the Airport in future fiscal years. Future traffic at the Airport is sensitive to a variety of factors including: (1) the growth in the population and the economy of the area served by the Airport (2) national and international political and economic conditions, including the effects of the terrorist attacks of September 11, 2001 or any future attacks; (3) air carrier economics and air fares; (4) the availability and price of aviation fuel; (5) air carrier service and route networks; (6) the capacity of the air traffic control system; and (7) the capacity of the Airport/airways system.

The level of aviation activity at the Airport can have a material impact on the amount of total revenues generated at the Airport. However, Airport management believes the risk of significant variance in Airport revenues is mitigated by the Airport Use Agreements, concession agreements, and other leases, which contain minimum annual revenue guarantees.

**(10) Use Agreement with Signatory Air Carrier – American Airlines, Inc.**

American Airlines, Inc. (American) represents the major air carrier providing air passenger service at the Airport. American provided 26% and 31% of the Airport's total operating revenues and 43% and 38% of total revenues from signatory air carriers for the fiscal years ended June 30, 2006 and 2005, respectively. Accounts receivable at June 30, 2006 and 2005 contained of \$1,906 and \$(27), respectively, relating to amounts owed to the Airport by American. These amounts include \$958 and \$(3) of unbilled aviation revenues at June 30, 2006 and 2005, respectively.



**LAMBERT – ST. LOUIS INTERNATIONAL AIRPORT**  
(An Enterprise Fund of the City of St. Louis, Missouri)

Notes to Basic Financial Statements

June 30, 2006 and 2005

(Dollars in thousands)

In 1993, the City purchased from Trans World Airlines, Inc. (TWA) all of TWA's leasehold interests relating to the use of certain gates, terminal support facilities, air cargo facilities, and improvements at the Airport, together with related personal property, leasehold interest in a hangar and office building, and a flight training facility (Purchased Assets). TWA had a month-to-month lease covering the Purchased Assets with automatic renewals through December 31, 2005. In conjunction with the sale of TWA's assets to American on April 9, 2001, American assumed TWA's obligations under the lease agreement.

Under the lease agreement, if during any month American has an average of less than 190 regularly scheduled departures, the City has a right to reclaim and redesignate the use of the gates and terminal support facilities and equipment to other airlines so that American would retain only the number of gates that represents an average of 3.33 daily flight departures per gate. In addition, under the lease agreement, if American fails to make a payment of any rents, fees, or charges, the City may terminate all of American's airport agreements and retain ownership of all assets acquired under the purchase transaction.

Lease revenue under the agreement was \$3,804 and \$7,607 for the years ended June 30, 2006 and 2005, respectively. The agreement expired on December 31, 2005.

**(11) Operating Leases**

The Airport leases facilities and land with varying renewal privileges to various nonsignatory air carriers, concessionaires, and others. These leases, for periods ranging from 1 to 50 years, require the payment of minimum annual rentals. The following is a schedule by year of minimum future rentals on noncancelable operating leases, other than leases with signatory airlines, pursuant to long-term use agreements:

Year ending June 30:	
2007	\$ 17,503
2008	17,225
2009	13,032
2010	7,950
2011	6,731
2012 – 2016	12,644
2017 – 2021	4,719
2022 – 2026	3,576
2027 – 2031	3,562
2032 – 2036	2,493
Total minimum future rentals	<u>\$ 89,435</u>

The above amounts do not include contingent rentals that may be received under certain leases. Such contingent rentals amounted to \$24,527 and \$14,748 for the years ended June 30, 2006 and 2005, respectively.

The Airport leases computer and other equipment and has service agreements under noncancelable arrangements that expire at various dates through 2010. Expenses for operating leases and service

**LAMBERT – ST. LOUIS INTERNATIONAL AIRPORT**

(An Enterprise Fund of the City of St. Louis, Missouri)

## Notes to Basic Financial Statements

June 30, 2006 and 2005

(Dollars in thousands)

agreements were \$993 and \$1,620 for the years ended June 30, 2006 and 2005, respectively. Future minimum payments (excluding payments for snow removal that are not determinable) are as follows:

Year ending June 30:	
2007	\$ 141
2008	111
2009	57
2010	30
Total minimum future rentals	\$ <u>339</u>

**(12) Concessionaire Revenues**

During fiscal years 2006 and 2005, revenues from concessionaires accounted for 19% and 17%, respectively, of total Airport operating revenues.

Following is a summary of rental revenues received by type of concessionaire for the years ended June 30, 2006 and 2005:

	<u>2006</u>	<u>2005</u>
Advertising	\$ 1,221	1,562
Transportation services	990	667
Automobile rental	11,065	9,652
General merchandise sales	1,894	1,768
Food and catering services	4,260	3,340
Other	2,176	1,941
	\$ <u>21,606</u>	<u>18,930</u>

**(13) Parking Revenue, net**

Parking revenues, net represents revenues collected in conjunction with the operations of the Airport parking facilities, net of related expenses. Gross parking revenue and parking expenses for the years ended June 30, 2006 and 2005 are as follows:

**LAMBERT – ST. LOUIS INTERNATIONAL AIRPORT**  
(An Enterprise Fund of the City of St. Louis, Missouri)

Notes to Basic Financial Statements

June 30, 2006 and 2005

(Dollars in thousands)

	<u>2006</u>	<u>2005</u>
Parking revenues	\$ 23,405	21,108
Parking expenses	(10,423)	(9,355)
Parking revenues, net	<u>\$ 12,982</u>	<u>11,753</u>

**(14) Impairment of Capital Assets**

Effective July 1, 2005, the Airport implemented the provisions of GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. Airport management performed an evaluation of capital assets, including whether prominent events or changes in circumstances affecting capital assets occurred, which may be indicative of impairment. As a result of evaluation of capital assets performed, and subsequent measurement of potential impairment losses, the Airport recognized an impairment of capital assets in the amount of \$8,392 for the year ended June 30, 2006 as a result of the impairment of a parking lot facility which is no longer used for its intended purpose, resulting in a corresponding reduction to the carrying value of the impaired asset.

**(15) Related-Party Transactions**

During the years ended June 30, 2006 and 2005, the City charged the Airport \$1,694 and \$2,318, respectively, for services rendered by various City departments, which are included in the Airport's operating expenses as interfund services used.

Each year the Airport pays the City a gross receipts tax equal to 5% of the Airport's gross receipts. During the years ended June 30, 2006 and 2005, gross receipts tax amounted to \$5,407 and \$5,570, respectively, and is reflected as transfers out in the accompanying basic financial statements. As of June 30, 2006 and 2005, \$1,660 and \$1,579, respectively, remain unpaid.

**(16) Retirement Plans**

All employees of the Airport are covered by one of two Citywide employee retirement plans. The employees of the Airport Fire Department are covered by the Firemen's Retirement System of St. Louis (Firemen's System), a single-employer defined benefit retirement plan. All other employees are covered by the Employees' Retirement System of the City of St. Louis (Employees' System), a cost-sharing, multiple-employer, public defined benefit retirement plan. Each system is administered by a separate Board of Trustees, members of which are appointed by City officials and plan participants.

**Firemen's Retirement System of St. Louis**

**(a) System Description**

All firefighters qualify as members of the Firemen's System and are thereby eligible to participate from their date of hire.

**LAMBERT – ST. LOUIS INTERNATIONAL AIRPORT**  
(An Enterprise Fund of the City of St. Louis, Missouri)

Notes to Basic Financial Statements

June 30, 2006 and 2005

(Dollars in thousands)

The Firemen's System issues a publicly available financial report that includes financial statements and supplementary information. That information may be obtained by writing to the Firemen's Retirement System of St. Louis; 1601 S. Broadway; St. Louis, Missouri, 63104.

Firefighters may elect voluntary retirement after 20 or more years of service. The monthly retirement benefit is calculated at 40% of the final two-year average monthly compensation at 20 or more years of service, plus 2% of such final average compensation for each of the next five years of service, plus 5% of such final average compensation for each additional year of service over 25 years with a maximum pension of 75%. Unused accrued sick leave pay may increase the maximum pension beyond the 75% limitation.

The Firemen's System also provides death and disability benefits. Benefits vest after 20 years of service. Such benefits are authorized by State statutes and adopted by City ordinance.

The Firemen's System, in accordance with Ordinance 62994 of the City, initiated during the Firemen's System's fiscal year ended August 31, 1994, the Deferred Retirement Option Plan (DROP). The DROP plan is available to members of the system who have achieved at least 20 years of creditable service and have eligibility for retirement. Those members who elect to participate will continue active employment, will have a service retirement allowance credited monthly into the DROP account of the member, and the member's contribution will be reduced to 1% from the normal 8%. During participation in the DROP plan, the member will not receive credit for employer contributions or credit for service. A member may participate in the DROP plan only once for any period up to five years. At retirement, the funds in the member's DROP account, plus interest, are available to the member in a lump sum or in installments.

**(b) Funding Policy**

Firefighters are required to contribute 8% of their compensation to the Firemen's System, as mandated per State statute and adopted by City ordinance. The Airport is required to contribute the remaining amounts necessary to fund the Firemen's System. Members of the Firemen's System are entitled to a lump-sum distribution of the entire amount of their contribution without interest upon service retirement. Members whose employment terminates prior to retirement are entitled to a lump-sum distribution of their contribution, plus interest thereon.

**(c) Annual Pension Cost**

Contributions of \$680 were made to the Firemen's System by the Airport during the fiscal year ended June 30, 2006. The contribution consisted of \$535 of normal cost, plus \$145 in unfunded actuarial accrued liability amortization payments in accordance with actuarially determined contribution requirements based on an actuarial valuation performed at October 1, 2005. The following were some of the significant actuarial assumptions used in the valuation of the Firemen's System:

**LAMBERT – ST. LOUIS INTERNATIONAL AIRPORT**  
(An Enterprise Fund of the City of St. Louis, Missouri)

Notes to Basic Financial Statements

June 30, 2006 and 2005

(Dollars in thousands)

Actuarial cost method	Entry age frozen liability method
Amortization method	30 years closed period from establishment
Remaining amortization period	Various
Asset valuation methods	3 year smoothed market
Inflation rate	3.500%, per year
Investment rate of return	7.625%, compounded annually
Projected salary increases	4.500%, per year to retirement age
Projected post-retirement benefit increases:	
Under age 60	1.500% to 3.000%, per year, dependent upon years of service
Over age 60	5.000% per year, maximum cumulative increase of 25%

**Three Year Trend Information – Firemen’s System**

Fiscal year	Annual pension cost (APC)	Percentage of APC contributed	Net pension obligation
2006	\$ 680	100%	\$ —
2005	496	100	—
2004	194	100	—

**Employees’ Retirement System of the City of St. Louis**

**(a) System Description**

All nonuniformed employees of the Airport become members of the Employees’ System upon employment, with the exception of employees hired after attaining age 60.

The Employees’ System issues a publicly available financial report that includes financial statements and supplementary information. That report may be obtained by writing to the Employees Retirement System of the City of St. Louis; 1300 Convention Plaza, Suite 217; St. Louis, Missouri 63103-1935.

The Employees’ System provides for defined benefit payments for retirement, death, or disability to eligible employees or their beneficiaries based upon creditable service, final average compensation, and a benefit compensation base. Benefits vest to employees covered by the Employees’ System after the employee has attained five years of creditable service. The Board of Trustees approves all withdrawals, benefits, and termination refunds from the Employees’ System’s assets. Normal retirement is at age 65 or if the employee’s age and creditable service combined equal or exceed 85. Early retirement is at age 60, with five years of creditable service; age 55, with 20 years of creditable service; or at any age after 30 years of creditable service.

**LAMBERT – ST. LOUIS INTERNATIONAL AIRPORT**  
(An Enterprise Fund of the City of St. Louis, Missouri)

Notes to Basic Financial Statements

June 30, 2006 and 2005

(Dollars in thousands)

On June 8, 2000, the Mayor of the City approved an ordinance passed by the Board of Aldermen that will establish a Deferred Retirement Option Plan (DROP) effective January 1, 2001. This plan states that when members reach retirement age, they are allowed to work for five additional years and defer receipt of their retirement allowance. The calculation of average salary for retirement benefits will not include the additional years of service after normal retirement age. The amount that would have been received as retirement benefit is put in a special DROP account monthly. The DROP account will not be adjusted for cost of living increases as the normal retirement benefits are. The DROP account earns interest at the actuarial valuation rate of return. After the member completely terminates employment, the member can withdraw amounts from the DROP account in a lump sum or according to a deferred retirement payment plan.

**(b) Funding Policy**

Employer contribution rates are established annually by the Board of Trustees based on an actuarial study. The Board of Trustees elected to require employer contributions at a rate of 13.19% of active member payroll effective July 2005, and 13.53% for the year prior to July 2005. The Airport contributed 6% of active member payroll beginning July 2004 through the present.

Employees who became members of the Employees' System prior to October 14, 1977 may make voluntary contributions to the Employees' System equal to 3% of the employee's compensation until the employee's compensation equals the maximum annual taxable earnings under the Federal Social Security Act in effect on January 1 of the calendar year. Thereafter, voluntary contributions may be made equal to 6% of employee compensation. These voluntary contributions vest immediately.

**(c) Annual Pension Cost and Net Pension Obligation**

The Airport's annual pension cost and net pension obligation to the Employees' System for the years ended June 30, 2006 and 2005 are as follows:

	<u>2006</u>	<u>2005</u>
Annual required contribution	\$ 2,970	3,009
Interest on net pension obligation	372	239
Adjustment to annual required contribution	<u>(413)</u>	<u>(265)</u>
Annual pension cost	2,929	2,983
Contributions made	<u>(1,335)</u>	<u>(1,320)</u>
Increase in net pension obligation	1,594	1,663
Net pension obligation, beginning of year	<u>4,650</u>	<u>2,987</u>
Net pension obligation, end of year	<u><u>\$ 6,244</u></u>	<u><u>4,650</u></u>

The net pension obligation of \$6,244 and \$4,650 as of June 30, 2006 and 2005, respectively, are

**LAMBERT – ST. LOUIS INTERNATIONAL AIRPORT**  
(An Enterprise Fund of the City of St. Louis, Missouri)

Notes to Basic Financial Statements

June 30, 2006 and 2005

(Dollars in thousands)

reflected as other long-term liabilities in the accompanying financial statements. The following were some of the significant actuarial assumptions used in the valuation of the Employee's System:

Date of actuarial valuation	October 1, 2005
Actuarial cost method	Projected unit credit
Amortization method	Level dollar amount for unfunded liability
Remaining amortization period	30 years as of October 1, 2005
Asset valuation methods	The market value of assets less unrecognized returns in each of the last five years, but no earlier than October 1, 2005. Initial unrecognized return is equal to the difference between the actual market return and expected market return, and is recognized over a five year period. The actuarial value is further adjusted, if necessary, to be within 20% of the market value. The actuarial asset value was initialized at the market value as of October 1, 2005.
Investment rate of return	8.00%
Projected salary increases	3.825% to 7.255%
Projected postretirement benefit increases	5.00% per year, maximum cumulative increase of 25%

**Three-Year Trend Information – Employees' System**

Fiscal year	Annual pension cost (APC)	Percentage of APC contributed	Net pension obligation
2006	\$ 2,929	45.58%	\$ 6,224
2005	2,983	44.25	4,650
2004	3,151	42.40	2,987

**(17) Commitments and Contingencies**

**(a) Record of Decision**

On September 30, 1998, the City received a favorable Record of Decision from the Federal Aviation Administration (FAA) for the W-1W expansion of the Airport, marking the beginning of a new economic era for aviation in St. Louis. The proposed \$2.6 billion program will provide the building blocks for a highly competitive "world-class" aviation system for the 21st century, including one additional 9,000-foot parallel runway to add capacity in all weather conditions and renovation of Lambert's existing runway and taxiway system.

**LAMBERT – ST. LOUIS INTERNATIONAL AIRPORT**  
(An Enterprise Fund of the City of St. Louis, Missouri)

Notes to Basic Financial Statements

June 30, 2006 and 2005

(Dollars in thousands)

The construction for this program will be funded with Airport Development Funds, Passenger Facilities Charges, FAA Improvement Program grants, and Airport Revenue Bonds. During fiscal year 2001, the Series 2000 Letter of Intent Double Barrel Revenue Bonds and the Series 2001A Airport Revenue Bonds were issued as part of the overall funding plan for this program. During fiscal year 2003, the Series 2002 Airport Revenue Bonds and Series 2003A Airport Revenue Refunding Bonds were issued to refinance the Series 2000 Letter of Intent Double Barrel Revenue Bonds and to provide additional financing for the project (See note 6).

Lawsuits previously filed by the Cities of St. Charles and Bridgeton, Missouri, challenging the project have been adjudicated and fully reviewed by the appellate courts. In both cases, final judgments were rendered in favor of the City and the Airport.

Land acquisition activities relative to the expansion project are underway with approximately 1,903 parcels to be acquired. As of October 2, 2006, 1,903 offers have been extended; of these, 1,889 offers have been accepted; of these, 1,881 real estate transactions have been closed; of these, 1,854 properties have been vacated by the sellers and are in the possession of the Airport; of these, 1,717 homes have been demolished.

Additionally, the Airport has entered into various construction contracts related to the expansion project.

**(b) Other**

At June 30, 2006, the Airport had outstanding commitments amounting to approximately \$54,200, resulting primarily from contracts for construction projects. In addition, the Airport has \$36,008 in outstanding commitments resulting from service agreements.

In connection with Federal grant programs, the Airport is obligated to administer the related programs, spend the grant moneys in accordance with regulatory restrictions, and is subject to audit by the grantor agencies. In cases of noncompliance, the agencies involved may require the Airport to refund program moneys.

Finally, certain lawsuits were pending against the City that involved the Airport. In the opinion of Airport officials and legal counsel, these actions are not expected to have a material effect, individually or in the aggregate, on the financial position or results of operations of the Airport.



**LAMBERT – ST. LOUIS INTERNATIONAL AIRPORT**  
(An Enterprise Fund of the City of St. Louis, Missouri)

Notes to Basic Financial Statements

June 30, 2006 and 2005

(Dollars in thousands)

**(18) Risk Management**

The Airport is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Airport participates in the Public Facilities Protection Corporation (PFPC), an internal service fund of the City of St. Louis, Missouri. The purpose of PFPC is to account for risks in which the City is self-insured, primarily workers' compensation, unemployment benefits, certain general liability, and various other claims and legal actions. All self-insured claims liabilities and payments are recorded in PFPC. The Airport reimburses PFPC for workers' compensation claims on a cost-reimbursement basis. During the years ended June 30, 2006 and 2005, expenses related to the Airport's participation in PFPC amounted to \$981 and \$700, respectively, and are reflected as interfund services used in the accompanying basic financial statements. At June 30, 2006 and 2005, the Airport owed PFPC \$1,576 and \$1,599, respectively, for unreimbursed workers' compensation claims.

Additionally, the City Counselor's office of the City of St. Louis, Missouri has determined that there is a reasonable possibility that a loss contingency may be incurred for an outstanding claim against the Airport in the amount of \$500. No accrual has been made within the accompanying financial statements for this claim because the loss is not probable.

The Airport purchases commercial insurance for other risks it considers significant, including general liability, public officials' liability, property damage, employee honesty bond, business auto, and insurance on its fine arts. Settled claims did not exceed commercial coverage in any of the last three years.

**(19) Subsequent Events**

On July 5, 2006, the Airport issued \$1,000 in Series 2004A Commercial Paper Notes, due August 7, 2006, at an annual interest rate of 3.70% for the purpose of financing the cost of extension, improvement, purchase, acquisition, construction or enlargement of facilities, appurtenances and equipment at the Airport. This amount was fully paid on August 7, 2006.

On August 7, 2006, the Airport issued \$1,000 in Series 2004A Commercial Paper Notes, due October 3, 2006, at an annual interest rate of 3.58% for the purpose of financing the cost of extension, improvement, purchase, acquisition, construction or enlargement of facilities, appurtenances and equipment at the Airport. This amount was fully paid on October 3, 2006.

On October 3, 2006, the Airport issued \$1,000 in Series 2004A Commercial Paper Notes, due November 7, 2006, at an annual interest rate of 3.60% for the purpose of financing the cost of extension, improvement, purchase, acquisition, construction or enlargement of facilities, appurtenances and equipment at the Airport.

**LAMBERT – ST. LOUIS INTERNATIONAL AIRPORT**  
**(An enterprise fund of the City of St. Louis, Missouri)**

Analysis of Cash and Investment Accounts

Year ended June 30, 2006

(Dollars in thousands)

	<b>Unrestricted</b>			<b>Held by Trustee Bond Fund</b>	
	<b>Revenue Fund</b>	<b>Revenue Fund Subaccount</b>	<b>Operation and Maintenance Fund</b>	<b>Debt Service Account</b>	<b>Debt Service Reserve Account</b>
Balance at June 30, 2005	\$ 936	1,579	5,647	53,869	41,276
Cash deposited with City Treasurer	122,842	—	—	—	—
Cash receipts	—	—	33	833	4,419
Transfer in accordance with ordinance	(111,072)	5,408	71,200	51,294	(2,499)
Vouchers and requisitions paid	(11,847)	—	(73,454)	—	(385)
Bond proceeds	—	—	—	(305)	(26)
Payments:					
Interest	—	—	—	(45,429)	(1,856)
Redemption of bonds	—	—	—	(23,390)	—
Payments to the City of 5% of gross receipts	—	(5,327)	—	—	—
Receipts from FAA and MoDOT	—	—	—	—	—
Capital appropriation	—	—	—	—	—
Capital expenditures	—	—	—	—	—
Balance at June 30, 2006	<u>\$ 859</u>	<u>1,660</u>	<u>3,426</u>	<u>36,872</u>	<u>40,929</u>

See accompanying independent auditors' report.

## Schedule I

Restricted						
Other Restricted Funds						
Renewal and Replacement Fund	Passenger Facility Charge Fund	Development Fund	Appropriated	Unappro- priated	Contingency Fund	Total
3,500	4,757	67,651	197,023	5,362	2,056	383,656
—	32,101	—	—	—	—	154,943
—	—	—	(704)	4,656	441	9,678
—	(2,193)	(12,079)	77	(136)	—	—
—	—	—	—	—	(245)	(85,931)
—	—	—	—	—	—	(331)
—	—	—	—	—	—	(47,285)
—	—	—	—	—	—	(23,390)
—	—	—	—	—	—	(5,327)
—	—	32,094	—	—	—	32,094
—	(4,647)	(25,016)	34,299	(4,362)	—	274
—	—	—	(157,786)	—	—	(157,786)
<u>3,500</u>	<u>30,018</u>	<u>62,650</u>	<u>72,909</u>	<u>5,520</u>	<u>2,252</u>	<u>260,595</u>

**LAMBERT – ST. LOUIS INTERNATIONAL AIRPORT**  
**(An enterprise fund of the City of St. Louis, Missouri)**

Schedule of 1996 Revenue Refunding Bonds Payable

June 30, 2006

(Dollars in thousands)

<u>Maturity on July 1</u>	<u>Interest Rate</u>		<u>Principal Maturity</u>
2006	5.25%	\$	4,065
2007	5.35		4,275
		\$	<u>8,340</u>

See accompanying independent auditors' report.

**Schedule III**

**LAMBERT – ST. LOUIS INTERNATIONAL AIRPORT**  
**(An enterprise fund of the City of St. Louis, Missouri)**

Schedule of 1997B Revenue Refunding Bonds Payable

June 30, 2006

(Dollars in thousands)

<b>Maturity on July 1</b>	<b>Interest Rate</b>		<b>Principal Maturity</b>
2006	5.25%	\$	3,710
2007	5.25		4,110
2008	5.25		4,300
2009	6.00		4,530
2010	6.00		4,775
2011	6.00		5,035
2012	6.00		5,310
2013	6.00		5,605
2014	6.00		5,910
2015	5.25		6,245
2016	5.25		6,545
2017	5.25		6,865
2018	5.25		6,795
2019	5.25		7,155
2020	5.25		7,530
2021	5.25		7,925
2022	5.25		8,340
2023	5.25		8,780
2024	5.25		9,240
2025	5.25		9,725
2026	5.25		10,235
2027	5.25		10,770
		\$	149,435

See accompanying independent auditors' report.

**LAMBERT – ST. LOUIS INTERNATIONAL AIRPORT**  
**(An enterprise fund of the City of St. Louis, Missouri)**

Schedule of 1998 Revenue Refunding Bonds Payable

June 30, 2006

(Dollars in thousands)

<u>Maturity on July 1</u>	<u>Interest Rate</u>		<u>Principal Maturity</u>
2006	4.00%	\$	4,760
2007	4.00		4,950
2008	4.00		5,145
2009	5.13		5,410
2010	5.13		5,690
2011	5.13		5,980
2012	5.13		6,295
2013	5.13		6,610
2014	5.13		6,945
2015	5.13		7,305
		\$	<u>59,090</u>

See accompanying independent auditors' report.

**LAMBERT – ST. LOUIS INTERNATIONAL AIRPORT**  
**(An enterprise fund of the City of St. Louis, Missouri)**

Schedule of 2001A Airport Revenue Bonds Payable

June 30, 2006

(Dollars in thousands)

<b>Maturity on July 1</b>	<b>Interest Rate</b>	<b>Principal Maturity</b>	<b>Interest Rate</b>	<b>Principal Maturity</b>	<b>Total Principal Maturity</b>
2007	4.13%	\$ 3,645	5.00%	\$ 2,145	5,790
2008	4.25	870	5.50	5,180	6,050
2009	4.40	1,165	5.50	4,040	5,205
2010	4.50	1,620	5.50	5,085	6,705
2011	4.60	1,760	5.00	5,300	7,060
2012	4.70	1,130	5.63	11,435	12,565
2013	—	—	5.63	13,260	13,260
2014	4.90	750	5.63	13,260	14,010
2015	5.00	1,640	5.63	—	1,640
2016	5.05	395	5.63	—	395
2017	5.13	355	5.63	—	355
2018	5.20	—	5.63	—	—
2019	5.25	—	5.63	—	—
2020	5.30	—	5.00	18,500	18,500
2021	5.30	—	5.00	19,375	19,375
2022	—	—	5.13	21,420	21,420
2023	—	—	5.00	17,835	17,835
2024	—	—	5.00	18,730	18,730
2025	—	—	5.00	19,665	19,665
2026	—	—	5.00	20,645	20,645
		<u>\$ 13,330</u>		<u>\$ 195,875</u>	<u>209,205</u>

See accompanying independent auditors' report.

**LAMBERT – ST. LOUIS INTERNATIONAL AIRPORT**  
**(An enterprise fund of the City of St. Louis, Missouri)**

Schedule of 2002 Airport Revenue Bonds Payable

June 30, 2006

(Dollars in thousands)

Maturity on July 1	2002A		2002B		2002C		Total Principal Maturity
	Interest Rate	Principal Maturity	Interest Rate	Principal Maturity	Interest Rate	Principal Maturity	
2006	3.00%	\$ —	5.00%	\$ 605	2.50%	\$ 820	1,425
2007	3.00	—	3.00	635	5.00	865	1,500
2008	3.00	—	5.00	655	5.00	910	1,565
2009	5.25	—	5.25	690	5.00	955	1,645
2010	5.25	—	5.25	725	5.25	1,000	1,725
2011	5.25	690	5.25	760	5.50	1,055	2,505
2012	5.25	1,675	4.25	800	5.50	1,110	3,585
2013	4.00	1,760	4.25	835	5.50	1,170	3,765
2014	5.38	1,830	4.00	870	5.50	1,240	3,940
2015	5.38	1,930	4.50	910	5.50	1,305	4,145
2016	5.38	2,035	4.60	950	5.50	—	2,985
2017	5.38	2,140	4.70	995	—	—	3,135
2018	5.38	2,260	4.75	1,040	—	—	3,300
2019	5.38	2,380	4.75	1,090	—	—	3,470
2020	5.38	—	4.88	1,145	—	—	1,145
2021	5.38	2,640	4.88	1,200	—	—	3,840
2022	4.75	2,785	5.00	1,255	—	—	4,040
2027	5.00	16,110	5.00	7,290	—	—	23,400
2032	5.00	20,560	5.00	9,305	—	—	29,865
		<u>\$ 58,795</u>		<u>\$ 31,755</u>		<u>\$ 10,430</u>	<u>100,980</u>

See accompanying independent auditors' report.



## Schedule VII

**LAMBERT – ST. LOUIS INTERNATIONAL AIRPORT**  
**(An enterprise fund of the City of St. Louis, Missouri)**

## Schedule of 2003A Revenue Refunding Bonds Payable

June 30, 2006

(Dollars in thousands)

<b>Maturity on July 1</b>	<b>Discount Serial Bonds</b>		<b>Premium Serial Bonds</b>		<b>Total Principal Maturity</b>
	<b>Interest Rate</b>	<b>Principal Maturity</b>	<b>Interest Rate</b>	<b>Principal Maturity</b>	
2007	2.38%	\$ 1,150	5.00%	\$ 3,315	4,465
2008	2.80	1,160	5.00	3,505	4,665
2009	3.20	1,145	5.00	3,735	4,880
2010	3.50	625	5.25	4,495	5,120
2011	3.75	235	5.25	5,150	5,385
2012	3.88	190	5.25	5,485	5,675
2013	4.00	5,940	5.25	—	5,940
2014	4.00	6,185	5.25	—	6,185
2015	4.13	795	5.25	5,680	6,475
2016	4.25	125	5.25	6,690	6,815
2017	4.25	250	5.25	6,930	7,180
2018	4.30	2,555	5.25	5,000	7,555
		<u>\$ 20,355</u>		<u>\$ 49,985</u>	<u>70,340</u>

See accompanying independent auditors' report.

**Schedule VIII**

**LAMBERT – ST. LOUIS INTERNATIONAL AIRPORT**  
**(An enterprise fund of the City of St. Louis, Missouri)**

Schedule of 2005 Taxable Revenue Refunding Bonds Payable

June 30, 2006

(Dollars in thousands)

<u>Maturity on July 1</u>	<u>Interest Rate</u>	<u>Principal Maturity</u>
2013	4.00%	\$ 630
2014	4.00%	650
2015	5.50%	15,880
2016	5.50%	18,915
2017	5.50%	20,075
2018	5.50%	21,955
2019	5.50%	21,705
2020	5.00%	6,910
2021	5.00%	4,765
2022	5.00%	3,820
2023	5.00%	2,395
2024	5.50%	2,515
2025	5.50%	2,655
2026	5.50%	2,795
2027	5.50%	24,545
2028	5.50%	26,135
2029	5.50%	27,570
2030	5.50%	29,090
2031	5.50%	30,690
		\$ 263,695
		263,695

See accompanying independent auditors' report.

**LAMBERT – ST. LOUIS INTERNATIONAL AIRPORT**  
**(An enterprise fund of the City of St. Louis, Missouri)**

Schedule of Insurance

June 30, 2006

(Dollars in thousands)

<b>Insurer</b>	<b>Amount</b>	<b>Expiration Date</b>	<b>Character of Coverage</b>
Old Republic Insurance Company	\$ 50,000	10/1/2007	General liability
Global Aerospace & Lloyds	300,000	10/1/2006	General liability excess
National Union Fire Insurance	7,000	10/1/2006	Public official's liability
FM Global Insurance	815,000	10/1/2006	Comprehensive property damage
The Hartford Insurance Company	100	10/1/2006	Employee honesty bond
The Cincinnati Insurance Company	5,000	10/1/2006	Business auto and excess
Axis Specialty Insurance Company	50,000	10/1/2006	Excess property – earthquake
Ace Fire Underwriters Insurance	42,000	9/24/2007	Tunnel property
Underwriters at Lloyd's	22,000	9/24/2006	Tunnel excess flood and earthquake
St. Paul Fire and Marine	1,360	10/1/2008	Insurance on fine arts

See accompanying independent auditors' report.

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## **APPENDIX C**

### **Summary of Certain Provisions of the Indenture**

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## **APPENDIX C**

### **SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE**

The following is a summary of certain provisions of the Indenture of Trust dated as of October 15, 1984 (the “Original Indenture of Trust”), the First Supplemental Indenture of Trust, dated as of July 1, 1987 (the “First Supplemental Indenture”), the Second Supplemental Indenture of Trust, dated as of November 15, 1992 (the “Second Supplemental Indenture”), the Third Supplemental Indenture of Trust, dated as of August 1, 1993 (the “Third Supplemental Indenture”), the Fourth Supplemental Indenture of Trust, dated as of November 1, 1993 (the “Fourth Supplemental Indenture”), the Fifth Supplemental Indenture of Trust, dated as of April 1, 1996 (the “Fifth Supplemental Indenture”), the Sixth Supplemental Indenture of Trust, dated as of August 1, 1997 (the “Sixth Supplemental Indenture”; the Original Indenture of Trust, as amended and supplemented by the First Supplemental Indenture, the Second Supplemental Indenture, the Third Supplemental Indenture, the Fourth Supplemental Indenture, the Fifth Supplemental Indenture and the Sixth Supplemental Indenture is referred to herein as the “Original Indenture”), the Amended and Restated Indenture of Trust, dated as of October 15, 1984 as amended and restated as of September 10, 1997 (the “Restated Indenture”), the Seventh Supplemental Indenture of Trust, dated as of December 1, 1998 (the “Seventh Supplemental Indenture”), the Eighth Supplemental Indenture of Trust, dated as of May 1, 2001 (the “Eighth Supplemental Indenture”), the Ninth Supplemental Indenture of Trust, dated as of December 1, 2002 (the “Ninth Supplemental Indenture”), the Tenth Supplemental Indenture of Trust dated as of February 1, 2003 (the “Tenth Supplemental Indenture”), the Eleventh Supplemental Indenture Trust dated as of May 1, 2003 (the “Eleventh Supplemental Indenture”), the Twelfth Supplemental Indenture of Trust dated as of May 1, 2004 (the “Twelfth Supplemental Indenture”), the Thirteenth Supplemental Indenture of Trust dated as of June 1, 2005 (the “Thirteenth Supplemental Indenture”) and the Fourteenth Supplemental Indenture of Trust dated as of January 1, 2007 (the “Fourteenth Supplemental Indenture”; the Restated Indenture, as amended and supplemented by the Seventh Supplemental Indenture, the Eighth Supplemental Indenture, the Ninth Supplemental Indenture, the Tenth Supplemental Indenture, the Eleventh Supplemental Indenture, the Twelfth Supplemental Indenture, the Thirteenth Supplemental Indenture and the Fourteenth Supplemental Indenture is referred to herein as the “Indenture”). This summary does not purport to set forth all of the provisions of the Indenture and reference is made to the Indenture for its complete and actual terms.

#### **Definitions**

The following terms have the following meanings in the Indenture, unless a different meaning clearly appears from the context:

“Accountant’s Certificate” means a certificate signed by an independent certified public accountant or a firm of certified public accountants selected by the City satisfactory to the Trustee, who may be the accountant or firm of accountants who regularly audit the books of the City.

“Accrued Aggregate Debt Service” means, as of any date of calculation, an amount equal to the sum of (i) interest on the Bonds of all Series accrued and unpaid and to accrue to the end of the then current calendar month, and (ii) Principal Installments due and unpaid and that portion of the Principal Installments for all Series next due which would have accrued (if deemed to accrue in the manner set forth in the definition of Debt Service) to the end of such calendar month.

“Additional Bonds” means Bonds authenticated and delivered pursuant to the Indenture, and thereafter authenticated and delivered in lieu of or in substitution for such Bonds pursuant to the Indenture.

“Additional Project” means the extension, improvement, purchase, acquisition, construction and enlargement of facilities, appurtenances and equipment for the Airport to be financed, in whole or in part, from the proceeds of any Additional Bonds issued pursuant to the provisions of the Indenture.

“Adjusted Debt Service” means Debt Service, except that for any Series of Partially Amortizing Bonds it will mean Debt Service for each Fiscal Year other than the Fiscal Year in which the final maturity date of such Bonds occurs and with respect to such Fiscal Year and each Fiscal Year thereafter through the Fiscal Year ending on the date which is the anniversary of the final maturity date of such Series next occurring before the date which is 25.5 years after their issuance, that amount which if paid in substantially equal installments in each such Fiscal Year would pay the full amount of principal of such Bonds and the interest thereon (at the Index Interest Rate) by such anniversary.

“Aggregate Adjusted Debt Service” means, as of any particular date of computation and with respect to any period, the sum of the amounts of Adjusted Debt Service for such period with respect to all Series of Bonds.

“Aggregate Debt Service” means, as of any particular date of computation and with respect to any period, the sum of the amounts of Debt Service for such period with respect to all Series of Bonds.

“Airport” means the Lambert-St. Louis International Airport owned and operated by the City, including all land owned or to be acquired by the City (by lease or otherwise) for purposes of such airport (including, without limitation, noise mitigation and clear zone purposes) and all improvements and facilities in existence and located on any such land, as said Airport may be added to, extended, improved or constructed and equipped.

“Airport Commission” means the existing Airport Commission of the City, or such officer, board or commission of the City who or which may be legally given the powers and duties given to the Airport Commission in existence on the date of the Restated Indenture.

“Airport Consultant” means the airport consultant or airport consulting firm or corporation at times retained by the City pursuant to the Indenture to perform the acts and carry out the duties provided for such Airport Consultant in the Indenture.

“Airport Fiscal Year” means the twelve-month period beginning on July 1 of one year and ending on June 30 of the following *year*, or such other fiscal year of twelve months as may be selected by the City.

“Annual Budget” means the annual budget of the City (through the Airport Commission) for the Airport, as amended or supplemented from time to time, adopted or in effect for a particular City Fiscal Year as provided in the Indenture.

“Arbitrage Rebate Fund” means the Fund established by the Indenture.

“Authorized Officer of the City” means the Mayor, Comptroller or Treasurer of the City, or any other officer or employee of the City authorized under the laws of the State of Missouri, the Charter or ordinance of the City to perform specific acts or duties related to the subject matter of the authorization.

“Beneficial Owner” means, for any Bond which is held by a nominee, the beneficial owner of such Bond.

“Bond” or “Bonds” means the Series 2007A Refunding Bonds and any other bond or bonds, as the case may be, authenticated and delivered under and pursuant to the Indenture.



“Bond Counsel” means Nixon Peabody LLP and the Hardwick Law Firm, LLC, or any other attorney or firm of attorneys nationally recognized on the subject of municipal bonds selected by the City and acceptable to the Trustee.

“Bond Fund” means the Airport Bond Fund established by the Indenture.

“Bondholder,” “Holder of Bonds” or “Owner of Bonds” or any similar term means any person who will be registered owner of any Bond or Bonds.

“Bond Insurance Policy” means the municipal bond insurance policy issued by the Bond Insurer that guarantees payment of principal of, and interest on the applicable series of Bonds and with respect to the Series 2007A Refunding Bonds means the Series 2007A Refunding Bond Insurance Policy.

“Bond Insurer” means each insurance company which has insured the payment of the principal and interest on all or any portion of the Bonds and any successor thereto.

“Bond Proceeds” means all amounts received on the sale of a Series of Bonds.

“Bond Registrar” means the Trustee and any other bank or trust company organized under the laws of any state or national banking association appointed by the City to perform the duties of Bond Registrar enumerated in the Indenture. The term “Bond Registrar” will also be deemed to include any Co-Registrar appointed pursuant to the Indenture.

“Business Day” means any day of the year other than (a) a Saturday or Sunday or (b) any day on which banks located in New York, New York, St. Louis, Missouri or Kansas City, Missouri are required or authorized by law to remain closed.

“Capital Budget” means the capital budget of the City (through the Airport Commission) for the Airport, as amended or supplemented from time to time, adopted or in effect for a particular City Fiscal Year as provided in the Indenture.

“Charter” means the Charter of the City as in effect from time to time.

“City Fiscal Year” means the twelve-month period beginning on July 1 of one year and ending on June 30 of the following year, or such other fiscal year of twelve months as may be selected by the City.

“City-Held PFC Revenues” means, collectively, PFC Revenues on deposit in the Revenue Fund and PFC Revenues held by the City in the PFC Account and available to pay debt service.

“Code” means the Internal Revenue Code of 1986, as amended, and the regulations promulgated thereunder.

“Construction Fund” means the Airport Construction Fund established by the Indenture.

“Consulting Engineers” means the engineer or engineering firm or corporation at the time retained by the City pursuant to the Indenture to perform the acts and carry out the duties provided for such Consulting Engineers in the Indenture.

“Continuing Disclosure Agreement” means that certain Continuing Disclosure Agreement executed and delivered by the City and the Dissemination Agent with respect to the Series 2007A Refunding Bonds.

“Cost of Construction”, with respect to the initial Project or an Additional Project, means the City’s costs properly attributable to the construction or acquisition thereof. “Cost of Construction” will also include the Costs of Issuance of any Series of Bonds to the extent payable from the Construction Fund pursuant to the Indenture or a Supplemental Indenture.

“Cost of Issuance Account” means the Cost of Issuance Account established with respect to each Series in accordance with the Indenture.

“Costs of Issuance” means all items of expense, directly or indirectly payable or reimbursable by or to the City and related to authorization, sale and issuance of any Bonds including, but not limited to, printing costs, costs of preparation and reproduction of documents, filing and recording fees, initial fees and charges of any Fiduciary, legal fees and charges, fees and disbursements of consultants and professionals, costs of credit ratings, fees and charges for preparation, execution, transportation and safekeeping of Bonds, costs and expenses of refunding, premiums for the insurance of the payment of Bonds, fees payable in connection with any letter of credit securing all or a portion of the Bonds, financing charges, accrued interest with respect to the initial investment of proceeds of Bonds and any other costs, charge or fee in connection with the original issuance of Bonds.

“Counsel’s Opinion” means an opinion of an attorney or firm of attorneys nationally recognized on the subject of tax-exempt municipal financings (who may be counsel to the City) selected by the City and satisfactory to the Trustee.

“Counterparty” means an entity whose senior long-term debt obligations, or whose obligations under an Interest Rate Exchange Agreement, are guaranteed by a financial institution whose senior long term debt obligations have a rating in one of the three highest categories of each of the Rating Agencies.

“Debt Service” for any period means, as of any date of calculation and with respect to any Series of Bonds, an amount equal to the sum of (i) interest accruing during such period on Bonds of such Series, except to the extent that such interest on the Bonds of such Series is to be paid from deposits (including investment income thereon) in the Debt Service Account made from Bond proceeds or other amounts available therein, and (ii) that portion of each Principal Installment for such Series of Bonds which would accrue during such period if such Principal Installment were deemed to accrue daily in equal amounts from the next preceding Principal Installment due date for such Series (or, if there will be no such preceding Principal Installment due date, from the date of issuance of such Series). Such interest and Principal Installments for such Series of Bonds shall be calculated on the assumption that no Bonds of such Series Outstanding at the date of calculation will cease to be Outstanding except by reason of the payment of each Principal Installment on the due date thereof. For the purposes of any projections required by the Indenture with respect to Variable Rate Bonds, interest will be calculated on the basis of the average interest rate or rates borne on Variable Rate Bonds Outstanding during any consecutive twelve months of the preceding 24 months, except that (i) for the purpose of satisfying the conditions for the issuance of Additional Bonds, if the Variable Rate Bonds are being issued on the date of computation, the rate of interest will be assumed to be 110% of the initial interest rate of such Bonds, and (ii) for the purpose of satisfying the Debt Service Reserve Requirement, if any, the interest rate for any Variable Rate Bonds will be computed at the average interest rate on such Bonds during the preceding Airport Fiscal Year or if not Outstanding during the preceding Airport Fiscal Year, the initial interest rate of such Bonds; provided, however, that no payments required for any Option Bonds, other Bonds or Interest Rate Exchange Agreements which may be tendered or otherwise presented for payment at the option or demand of the owners thereof, or which may otherwise become due by reason of any other circumstance which will not, with certainty, occur during such period, will be included in any computation of Debt Service prior to the stated or theretofore extended maturity or otherwise certain due dates thereof, and all such payments will be deemed to be required on such stated or theretofore extended maturity dates or otherwise certain due dates; and provided, further, however, if the

City in a Supplemental Indenture for a Series of Bonds elects to enter into an Interest Rate Exchange Agreement and deem any payments received thereunder as Revenues, Debt Service will include any amounts payable by the City during such interest rate period pursuant to such Interest Rate Exchange Agreement (other than termination payments thereunder).

“Debt Service Account” means the Airport Debt Service Account established within the Bond Fund.

“Debt Service Stabilization Fund” means the Airport Debt Service Stabilization Fund established by the Indenture.

“Debt Service Stabilization Fund Requirement” means an amount equal to 35 percent of the maximum annual Debt Service on the Bonds due in the then current or any future Airport Fiscal Year, subject to the provisions of the Indenture.

“Determination Date” means the later of (i) the City’s receipt of a certificate from the Airport Consultant certifying that the 2001A ADP Project has been completed or (ii) the expiration of the Use Agreements (i.e., June 30, 2011); provided, however, that prior to June 30, 2011, the Determination Date shall mean June 30, 2011.

“Debt Service Reserve Requirement” means, as of any date of calculation for the then Outstanding Bonds, unless otherwise specified in a Supplemental Indenture for a particular Series of Bonds, an amount which will equal the lesser of: (i) 10% of the proceeds of such Series of Bonds, (ii) 125% of the average annual debt service on such Series of Bonds or (iii) the maximum annual debt service on such Series of Bonds. Such amount for any Series of Bonds may be satisfied by a deposit of cash or a letter of credit, revolving credit agreement, standby purchase agreement, surety bond, insurance policy or similar obligation, arrangement or instrument issued by a bank, insurance company or other financial institution which provides for payment of all or a portion of the Principal Installments and/or interest due on any Series of Bonds or provides funds for the purchase of such Bonds or portions thereof, which will be rated in one of the three highest rating categories by the Rating Agencies and will permit the full amount thereof to be drawn down at least thirty days prior to the expiration thereof. A Supplemental Indenture for a Series of Bonds may specify that the Debt Service Reserve Requirement may be satisfied either at the closing of such Series of Bonds or by depositing such requirement over time from Revenues monthly in substantially equal amounts which time period will not exceed sixty months from the closing date for such Series, alternatively, a Supplemental Indenture for a Series of Bonds may specify that such Series of Bonds will not have a Debt Service Reserve Requirement, in which event such Series of Bonds will not be entitled to a lien on such account.

“Debt Service Reserve Account” means the Debt Service Reserve Account established within the Bond Fund.

“Development Fund” means the Airport Development Fund established by the Indenture.

“Director of Airports” means the now existing Director of Airports of the City, or such officer of the City who hereafter may be legally given the powers and duties given to the Director of Airports on the date of the Indenture.

“DTC” means The Depository Trust Company, New York, New York, a limited purpose trust company organized under the New York Banking Law, as amended, a “banking organization” within the meaning of the New York Banking Law, as amended, a member of the Federal Reserve System, a “clearing corporation,” within the meaning of the New York Commercial Code, as amended, and a “clearing agency”

registered pursuant to the provisions of Section 17A of the Securities and Exchange Act of 1934, as amended, and its successors and assigns.

“Event of Default” will have the meaning given to such term in the Indenture.

“FAA” means the Federal Aviation Administration, or the successor to its powers and authority.

“Fiduciary” means the Trustee, the Co-Registrar, and any Paying Agent, or any or all of them as may be appropriate.

“Fitch” means Fitch Ratings, Inc.

“Future O&D PFC Revenues” means that portion of PFC Revenues to be derived from the PFCs payable by passengers whose air travel originates at the Airport or whose destination is the Airport, as estimated by the Airport Consultant.

“Future PFC Revenues” means an amount of PFCs that equals the amount of PFCs authorized to be imposed by the City at the Airport, less the amount of PFCs that have been received by the City.

“GARB Revenues” means all revenues collected by the City relating to, from or with respect to its possession, management, supervision, operation and control of the Airport, including all rates, charges, landing fees, rentals, use charges, concession revenues, revenues from the sale of services, supplies or other commodities, any investment income realized from the investment of amounts in the Revenue Fund, and any other amounts deposited into the Revenue Fund. GARB Revenues does not include: (a) any revenue or income from any Special Facilities, except ground rentals therefor or any payments made to the City in lieu of such ground rentals and the revenue or income from Special Facilities which are not pledged to the payment of Special Facilities Indebtedness, (b) any moneys received as grants, appropriations or gifts from the United States of America, the State of Missouri or other sources, the use of which is limited by the grantor or donor to the planning or the construction of capital improvements, including land acquisition, for the Airport, except to the extent any such moneys will be received as payment for the use of the Airport, (c) any Bond proceeds and other money (including investment earnings) credited to the Construction Fund for the financing of capital improvements to the Airport, (d) any interest earnings or other gain from investment of moneys or securities in any escrow or similar account pledged to the payment of any obligations therein specified in connection with the issuance of Refunding Bonds or the defeasance of any Series of Bonds in accordance with the Indenture, (e) any consideration received by the City upon transfer of the Airport pursuant to the Indenture, (f) interest income on, and any profit realized from, the investment of moneys in (i) the Construction Fund or any other construction fund funded from proceeds of Bonds or (ii) the Debt Service Account or the Debt Service Reserve Account if and to the extent there is any deficiency therein; (g) any passenger facility charge or similar charge levied by or on behalf of the Airport against passengers or cargo, including any income or earnings thereon, unless and to the extent all or a portion thereof are designated as GARB Revenues by the City in a Supplemental Indenture; (h) insurance proceeds which are not deemed to be GARB Revenues in accordance with generally accepted accounting principles (other than proceeds that provide for lost revenue to the Airport for business interruption or business loss); (i) the proceeds of any condemnation or eminent domain award; (j) the proceeds of any sale of land, buildings or equipment; (k) any money received by or for the account of the Airport from the levy of taxes upon any property in the City; and (l) amounts payable to the City under an Interest Rate Exchange Agreement unless and to the extent designated as GARB Revenues by the City in a Supplemental Indenture.

“Government Securities” means any securities described in clauses (i) and (vii) of the definition of “Investment Securities.”

“Indenture” means the Original Indenture, as amended and supplemented by the Prior Supplemental Indentures, as amended and restated by the Restated Indenture, as amended and supplemented by the Seventh Supplemental Indenture, the Eighth Supplemental Indenture, the Ninth Supplemental Indenture, the Tenth Supplemental Indenture, the Eleventh Supplemental Indenture, the Twelfth Supplemental Indenture, the Thirteenth Supplemental Indenture and the Fourteenth Supplemental Indenture.

“Index Interest Rate” means the per annum interest rate set forth in the most recently issued 25-Revenue Bond Index published by The Bond Buyer or, in the event such Index is no longer published, in such comparable index selected by the Trustee.

“Insurance Consultant” means an insurance consultant or other expert (and may include the Airport Consultant) having expert knowledge and skill with respect to the scope and amounts of insurance coverages appropriate for airport facilities similar to the Airport.

“Interest Payment Date” means January 1 and July 1 of each year beginning July 1, 2007.

“Interest Rate Exchange Agreement” means any financial arrangement (i) that is entered into by the City with an entity that is a Counterparty; (ii) which provides that the City will pay to such Counterparty an amount based either on the principal amount or the notional amount equal to the principal amount of all or a portion of a Series of Bonds, and that such Counterparty will pay to the City an amount based on the principal amount of such Series of Bonds, in each case computed in accordance with a formula set forth in such Interest Rate Exchange Agreement, or that one will pay to the other any net amount due under such arrangement; or (iii) the City will be paid by the Counterparty an amount, based either on the principal amount or a notional amount equal to the principal amount of all or any portion of the Variable Rate Bonds of such Series, if the interest rate on such Series of Variable Rate Bonds exceeds a previously agreed upon rate, and/or the City will pay to the Counterparty an amount, based on a notional amount equal to the principal amount of all or any portion of the Variable Rate Bonds of such Series, if the interest rate on such Series of Variable Rate Bonds is less than a previously agreed upon rate; (iv) which has been designated in writing to the Trustee by an Authorized City Representative as an Interest Rate Exchange Agreement with respect to a Series of Bonds and (v) which, in the opinion of Bond Counsel, will not adversely affect the exclusion of interest on Bonds from gross income for the purposes of federal income taxation.

“Investment Securities” means, unless otherwise specified in a Supplemental Indenture, and includes any of the following obligations, to the extent the same are at the time legal for investment of funds of the City, including the amendments thereto, or under other applicable law: (i) any bonds or other obligations which as to principal and interest constitute direct obligations of, or the full and timely payment of the principal of and interest on which are unconditionally guaranteed by, the United States of America, including obligations of any Federal agency to the extent the full and timely payment of the principal of and interest on such obligations are unconditionally guaranteed by the United States of America; (ii) senior debt obligations and mortgage-backed securities issued by Federal Land Banks, Export-Import Bank of the United States, Federal Financing Bank, FNMA (excluding stripped mortgage securities which are purchased at prices exceeding their principal amount), FHLMC (excluding stripped mortgage securities which are purchased at prices exceeding their principal amount), Farmers Home Administration, Federal Housing Administration, Private Export Funding Corporation, Federal Farm Credit System and senior debt obligations and letter of credit-backed issues issued by the Student Loan Marketing Association; (iii) time deposits, certificates of deposit or any other deposit with a bank, trust company, national banking association, savings bank, federal mutual savings bank, savings and loan association, federal savings and loan association or any other institution chartered or licensed by any state or the U.S. Comptroller of the Currency to accept deposits in such state (“deposits” meaning obligations evidencing deposit liability which rank at least on a parity with the claims of general creditors in liquidation), which are (a) fully secured by direct obligations of the United States having a market value (exclusive of accrued interest) which will meet

the over-collateralization levels and meet the criteria required by each Rating Agency to maintain the rating on the Bonds or (b) secured to the extent, if any, required by each Rating Agency and made with an institution whose debt securities are rated at least equal to the then current rating on the Bonds (or equivalent rating of short-term obligations if the investment is for a period not exceeding one year) by each Rating Agency; (iv) repurchase agreements backed by or related to obligations described in (i) or (ii) above with any institution which will not adversely affect the then current rating on the Bonds by each Rating Agency; (v) investment agreements, secured or unsecured as required by each Rating Agency, with any institution which will not adversely affect the then current rating on the Bonds by each Rating Agency; (vi) if rated at a level which will not adversely affect the then current rating on the Bonds by each Rating Agency, direct and general obligations of or obligations guaranteed by any state or possession of the United States or the District of Columbia, to the payment of the principal of and interest on which the full faith and credit of such state, possession or District of Columbia is pledged; (vii) pre-refunded municipal obligations rated in the highest rating category by each Rating Agency and meeting the following conditions (a) such obligations are: (A) not subject to redemption prior to maturity or the Trustee has been given irrevocable instructions concerning their calling and redemption, and (B) the issuer of such obligations has covenanted not to redeem such obligations other than as set forth in such instructions; (b) such obligations are secured by Investment Securities described in clause (i) above, that may be applied only to interest, principal and premium payments of such obligations; and (c) the principal of and interest on such Investment Securities described in clause (i) above, (plus any cash in the escrow fund with respect to such pre-refunded obligations) are sufficient to meet the liabilities of the obligations; (viii) interest-bearing notes issued by a bank having combined capital and surplus of at least \$500,000,000 whose senior debt is rated in the highest rating category of the Rating Agency; (ix) tax-exempt revenue bond obligations of a state, municipality or governmental unit rated at least "AA" by each Rating Agency; (x) money market funds registered under the Investment Company Act of 1940, as amended (the "1940 Act") or shares of a diversified open-end management investment company, as defined in the 1940 Act, whose shares are registered under the Securities Act of 1933, as amended, which invests only in securities of the type described in clause (i) or (ii) above and having the highest possible rating from each Rating Agency; (xi) Eurodollar time deposits issued by a bank with a deposit rating in one of the two highest short-term deposit rating categories by each Rating Agency; (xii) long-term or medium-term corporate debt guaranteed by any corporation that is rated in one of the three highest rating categories by each Rating Agency; (xiii) short-term corporate debt including commercial paper which is rated in the highest short-term rating category by each Rating Agency, and (xiv) public housing bonds issued by public agencies which are either: (a) fully guaranteed by the United States of America; or (b) temporary notes, preliminary loan notes or project notes secured by a requisition or payment agreement with the United States of America; or (c) state or public agency or municipality obligations rated in the highest credit rating category by each Rating Agency; provided that it is expressly understood that the definition of Investment Securities will be, and be deemed to be, expanded, or new definitions and related provisions will be added to the Indenture, thus permitting investments with different characteristics from those permitted which the City deems from time to time to be in the interest of the City to include as Investment Securities, if at the time of inclusion such inclusion will not, in and of itself, adversely affect the then current rating on the Bonds. Investment Securities must be limited to those instruments that have a predetermined fixed dollar amount of principal due at maturity that cannot vary or change, and if the obligation is rated, it should not have an 'r' highlighter affixed to its rating.

*Provided, however,* that the bond insurers for various series of Bonds have specified investment criteria as set forth in the Indenture and its supplements.

"Moody's" means Moody's Investors Service, Inc.

"Net Revenues" means the Revenues less Operation and Maintenance Expenses.

“Operation and Maintenance Expenses” means the City’s expenses for operation, maintenance, repairs, ordinary replacement and ordinary reconstruction of the Airport, including a reasonable reserve for uncollectible Revenues, and will include, without limitation, administrative and overhead expenses, insurance premiums, deposits for self-insurance, legal, engineering, consulting, accounting or other professional service expenses, union contributions, payments to pension, retirement, group life insurance, health and hospitalization funds, or other employee benefit funds, costs of rentals of equipment or other personal property, costs of rentals of real property, costs incurred in collecting and attempting to collect any sums due the City in connection with the operation of the Airport, and any other expenses required to be paid by the City under the provisions of the Indenture or by laws or consistent with standard practices for airports similar to the properties and business of the Airport and applicable in the circumstances, including, without limitation, an allocable share of administrative personnel costs incurred by the City at locations other than the Airport in connection with the operations of the Airport, and the expenses, liabilities and compensation of the fiduciaries required to be paid under the Indenture, all to the extent properly attributable to the Airport. “Operation and Maintenance Expenses” will not include any capital development cost or any allowance for depreciation or any operation or maintenance costs for Special Facilities where the lessee is obligated under its Special Facilities lease to pay such expenses.

“Operation and Maintenance Fund” means the Airport Operation and Maintenance Fund established by the Indenture.

“Option Bond” means any Bond which by its terms may be tendered for payment by and at the option of the owners thereof prior to the stated maturity thereof, or the maturities of which may be extended at the option of the owners thereof.

“Original Indenture” means the Indenture of Trust dated as of October 15, 1984, between the City and Mercantile Trust Company, National Association, predecessor in interest to the Trustee.

“Outstanding” or “outstanding”, when used with reference to Bonds, means as of a particular date, all Bonds theretofore and thereupon being authenticated and delivered under the Indenture except as otherwise provided therein.

“Outstanding Obligations” means the negotiable interest bearing revenue bonds of the City issued pursuant to the Outstanding Obligations Ordinances and which are described in the Restated Indenture.

“Outstanding Obligations Ordinances” means the Ordinances of the City pursuant to which the Outstanding Obligations were issued and which are described in the Restated Indenture.

“Partially Amortizing Bonds” will mean a Series of Bonds providing for principal payments such that: (i) the principal and interest coming due in the final year exceeds by more than 25% the amount coming due in any prior year; and (ii) the principal amount payable in the year ending on the final maturity date of such Series will not exceed the lesser of (a) 75% of the original principal amount of such Series or (b) the amount that would have been Outstanding on the day prior to the final maturity date of such Bonds if the Bonds of such Series had required level debt service payments (with interest payable at the Index Interest Rate) over the period beginning on the first principal payment date of such Series and ending on the anniversary of the final maturity date of such Series next occurring before the date which is 25.5 years after their issuance.

“Paying Agent” or “Paying Agents” means the Trustee or any other bank or banks or trust company or trust companies designated by the City as paying agent for the Bonds of any Series, and its successor or successors hereafter appointed in the manner provided for in the Indenture.

“PFC Account” means the PFC Account established and held by the City.

“PFC Act” means the Aviation Safety and Capacity Expansion Act of 1990, Pub. L. 101-508, Title IX, Subtitle B, §§ 9110 and 9111, recodified as 49 U.S.C. § 40117, as amended from time to time.

“PFC-Eligible Debt Service” means, for any PFC Year, that portion of debt service on the Bonds, the proceeds of which were used to finance (or refinance) PFC-Eligible Projects. As of the date of this Official Statement, the “PFC-Eligible Debt Service” consists of the “PFC Eligible 2001A ADP Debt Service,” “PFC-Eligible 2005 Debt Service” and “PFC-Eligible 2007A Debt Service.”

“PFC-Eligible Projects” means any projects that (i) are approved by the FAA for the imposition of PFC Revenues and (ii) are designated by the City as “PFC-Eligible Projects” pursuant to a Supplemental Indenture for the purpose of including the debt service thereon in the definition of PFC-Eligible Debt Service. As of the date of this Official Statement the “PFC-Eligible 2001A ADP Projects” in the amount of \$300,273,000 are the only PFC Eligible Projects.

“PFC-Eligible 2001A ADP Debt Service” means PFC Eligible Debt Service on the 2001A ADP Bonds.

“PFC-Eligible 2005 Debt Service” means PFC Eligible Debt Service on the 2005 Bonds, which consists of the portion of Debt Service with respect to the 2005 Bonds that is allocable to the refunding of PFC-Eligible 2001A ADP Debt Service.

“PFC-Eligible 2007A Debt Service” means PFC Eligible Debt Service on the 2007A Bonds, which consists of the portion of Debt Service with respect to the 2007A Bonds that is allocable to the refunding of PFC-Eligible 2001A ADP Debt Service.

“PFC-Eligible 2001A ADP Project” means any project designed at a PFC Eligible Project pursuant to the Eighth Supplemental Indenture.

“PFC Regulations” means Part 158 of the Federal Aviation Regulations (14 CFR Part 158), as amended from time to time, and any other regulation issued with respect to the PFC Act.

“PFC Revenues” means the PFCs remitted to the City as a result of enplanements at the Airport, including any interest earned thereon, after such PFCs have been remitted to the City as provided in the PFC Regulations.

“PFCs” means the passenger facility charges imposed at an airport from time to time pursuant to the PFC Act, the PFC Regulations and any Record of Decision of the FAA relating to passenger facility charges.

“PFC Year” means each one-year period from July 2 of a given calendar year through and including July 1 of the succeeding calendar year.

“Pledged PFC Revenues” means the portion of PFC Revenues that has been pledged to the payment of the Bonds pursuant to the terms of a Supplemental Indenture with respect PFC-Eligible Projects which have been financed by proceeds of Bonds.

“Principal Installment” means, as of the date of calculation and with respect to any Series of Bonds, so long as any Bonds thereof are Outstanding, (i) the principal amount of Bonds of such Series due on a certain future date for which no Sinking Fund Installments have been established, or (ii) the unsatisfied



balance (determined as provided in the Indenture) of any Sinking Fund Installments due on a certain future date for Bonds of such Series, plus the amount of the sinking fund redemption premiums, if any, which would be applicable upon redemption of such Bonds on such future date in a principal amount equal to said unsatisfied balance of such Sinking Fund Installments, or (iii) if such future dates coincide as to different Bonds of such Series, the sum of such principal amount of Bonds and of such unsatisfied balance of Sinking Fund Installments due on such future date plus such applicable redemption premiums, if any.

“Principal Payment Date” means July 1 of each year.

“Prior Supplemental Indentures” means, collectively, the First Supplemental Indenture of Trust between the City and the Trustee, dated as of July 1, 1987, the Second Supplemental Indenture of Trust between the City and the Trustee, dated as of November 15, 1992, the Third Supplemental Indenture of Trust between the City and the Trustee, dated as of November 1, 1993, the Fourth Supplemental Indenture of Trust between the City and the Trustee, dated as of April 1, 1996, the Fifth Supplemental Indenture of Trust between the City and the Trustee, dated as of April 1, 1996, and the Sixth Supplemental Indenture of Trust between the City and the Trustee, dated as of August 1, 1997.

“Project” means the capital projects to be financed with the proceeds of the Outstanding Obligations in accordance with the Outstanding Obligations Ordinances and which are to be completed subsequent to the issuance of the Series 1984 Bonds and the improvement, purchase, acquisition, construction and enlargement of the facilities, appurtenances and equipment described on Schedule I of the First Supplemental Indenture, the Second Supplemental Indenture and the Fourth Supplemental Indenture, as such Schedule is modified from time to time in accordance with the Indenture.

“Rating Agency” or “Rating Agencies” means, with respect to the Bonds or any Series of Bonds, Moody’s, S&P and Fitch, to the extent that any of such rating services have issued a credit rating on the Bonds which is in effect at the time in question or, upon discontinuance of any of such rating services, such other nationally recognized rating service or services, if any such rating service has issued a credit rating on the Bonds at the request of the City and such credit rating is in effect at the time in question.

“Record Date” means the 15<sup>th</sup> day of the month preceding an Interest Payment Date.

“Redemption Price” means with respect to any Series 2007A Refunding Bond, the amount payable upon redemption thereof pursuant to the Fourteenth Supplemental Indenture.

“Refunded Bonds” means (a) \$54,670,000 of The City of St. Louis, Missouri, Airport Revenue Bonds, Series 2001A (Airport Development Program)(Non-AMT) (Lambert-St. Louis International Airport Project), outstanding as of the date hereof in the principal amount of \$58,795,000, and (b) \$178,395,000 of The City of St. Louis, Missouri, Airport Revenue Bonds, Series 2002A (Capital Improvement Program)(Non-AMT) (Lambert-St. Louis International Airport Project), outstanding as of the date hereof in the principal amount of \$209,205,000.

“Renewal and Replacement Fund” means the Airport Renewal and Replacement Fund established by the Indenture.

“Restated Indenture” means the Amended and Restated Indenture of Trust between the City and the Trustee dated as of October 15, 1984, and further amended and restated as of September 10, 1997.

“Revenues” means, collectively, the GARB Revenues, the Pledged PFC Revenues and any other available moneys deposited, at the discretion of the City, in the Revenue Fund.

“Revenue Fund” means the Airport Revenue Fund established by the Indenture.

“S&P” means Standard & Poor’s Ratings Services.

“Series” means all Bonds, including Additional Bonds, authenticated and delivered on original issuance in a simultaneous transaction, and any Bonds thereafter authenticated and delivered in lieu of or in substitution for such Bonds pursuant to the Indenture regardless of variations in maturity, interest rate, Sinking Fund Installments, or other provisions.

“Series 2007A Refunding Bond Insurer” means Financial Security Assurance Inc., a New York stock insurance company, or any successor thereto or assignee thereof.

“Series 2007A Refunding Bonds” means The City of St. Louis, Missouri Airport Revenue Refunding Bonds, Series 2007A (Non-AMT) (Lambert-St. Louis International Airport).

“Special Facilities Indebtedness” means any indebtedness issued by the City or any other public corporation or public instrumentality to finance Special Facilities in accordance with the Special Facilities covenant, described in the Indenture.

“Special Facilities” means those capital improvements or facilities acquired or constructed after the date of the Indenture and described therein.

“Subordinated Indebtedness” means any evidence of debt referred to in, and complying with the provisions of the Indenture regarding Subordinated Indebtedness.

“Supplemental Indenture” means any indenture of the City amending or supplementing the Restated Indenture and adopted and becoming effective in accordance with the terms of the Restated Indenture.

“Tax Certificate” means the Tax Certificate as to Arbitrage and the Provisions of Sections 141-150 of the Internal Revenue Code of 1986, by the City to evidence compliance with the provisions of Sections 141 through 150 of the Code.

“Trustee” means UMB Bank, N.A., a national banking association, and any successor trustee under the Indenture, acting in its trust capacity.

“Trust Estate” means (i) the proceeds of the sale of the Series 2007A Refunding Bonds; (ii) GARB Revenues; (iii) the Pledged PFC Revenues; (iv) all funds established by the Indenture, including the investments, if any, thereof; (v) all other property of every name and nature from time to time mortgaged, pledged or hypothecated as and for additional security under the Indenture by the City, or by anyone on its behalf or with its written consent, in favor of the Trustee, which is authorized to receive all such property at any time and to hold and apply the same subject to the terms of the Indenture; and (vi) all proceeds of any of the foregoing.

“Underwriters” means those underwriters identified in the Bond Purchase Agreement relating to the sale, purchase and delivery of the Series 2007A Refunding Bonds.

“Use Agreements” means the commercial airlines/airport use agreements between the principal certificated air carriers and the City, as amended from time to time.

“Variable Rate Bond” means any Bond, the rate of interest on which is subject to change prior to maturity and cannot be determined in advance of such change; provided, however, as long as the Bond

Insurance Policy is in effect and the Bond Insurer is not in default under the Bond Insurance Policy, for all purposes, variable rate indebtedness shall be assumed to bear interest at the highest of: (i) the actual rate on the date of calculation, or if the indebtedness is not yet outstanding, the initial rate (if established and binding), (ii) if the indebtedness has been outstanding for at least twelve months, the average rate over the twelve months immediately preceding the date of calculation, and (iii) (A) if interest on the indebtedness is excludable from gross income under the applicable provisions of the Code, the most recently published Bond Buyer "Revenue Bond Index" (or comparable index if no longer published) plus 50 basis points, or (B) if interest is not so excludable, the interest rate on direct U.S. Treasury Obligations with comparable maturities plus 50 basis points; provided, however, that for purposes of any rate covenant measuring actual debt service coverage during a test period, variable rate indebtedness shall be deemed to bear interest at the actual rate per annum applicable during the test period.

### **Issuance of the Bonds**

The Indenture authorizes the issuance of one or more series of Bonds for the purpose of advance refunding the Outstanding Obligations, financing, together with the other funds available for such purpose, the Cost of Construction of the Project or any Additional Project, refunding the principal and/or interest components of any Outstanding Bonds, Subordinated Indebtedness, Special Facilities Indebtedness, or other indebtedness issued for Airport purposes, funding any Funds or Accounts established pursuant to the Indenture or any combination of the foregoing. The Indenture authorizes the issuance of Variable Rate Bonds on such terms as will be provided in a Supplemental Indenture authorizing a Series of Bonds. Each such Series of Bonds be designated as "Airport Revenue Bonds" and will include such further appropriate designation as the City shall determine to distinguish the Bonds of such Series from the Bonds of all other Series.

The Indenture authorizes the issuance of one or more Series of Additional Bonds for the purpose of paying the Cost of Construction of the completion of the Project and all or a portion of the Cost of Construction of any Additional Project. The issuance of Additional Bonds is subject to certain conditions and tests, including, but not limited to:

(1) An Accountant's Certificate setting forth (a) for any period of 12 consecutive calendar months out of the 18 calendar months next preceding the authentication and delivery of such Series, the Net Revenues for such 12-month period, and (b) the Aggregate Adjusted Debt Service for such 12-month period, and demonstrating that for such 12-month period Net Revenues equaled at least 1.25 times the Aggregate Adjusted Debt Service;

(2) A certificate of the Consulting Engineers setting forth (a) the estimated date of completion for the Project or any Additional Project for which such Series of Additional Bonds is being issued, and (b) an estimate of the Cost of Construction of the Project or any such Additional Project;

(3) A certificate of the Airport Consultant setting forth each of the three Airport Fiscal Years following the Airport Fiscal Year in which the Consulting Engineers estimate the Project or any such Additional Project will be completed, estimates of (a) Net Revenues and (b) amounts to be deposited from Revenues into the Debt Services Reserve Account, the Renewal and Replacement Fund and the Development Fund;

(4) A certificate of an Authorized Officer of the City setting forth (a) the estimates of Net Revenues, as set forth in the certificate of the Airport Consultant described in paragraph (3) above, for each of the three Airport Fiscal Years following the Airport Fiscal Year in which it is estimated that the Project or any Additional Project will be completed, (b) the

estimates of the amounts to be deposited in certain funds and accounts from Revenues as set forth in the certificate of the Airport Consultant pursuant to paragraph (3) described above, for each of the three Airport Fiscal Years following the Airport Fiscal Year in which it is estimated that the Project or any Additional Project will be completed, and (c) the Aggregate Adjusted Debt Service, determined after giving effect to the issuance of such Additional Bonds and including the Aggregate Debt Service, as estimated by such Authorized Officer, with respect to future Series of Bonds, if any, which such Authorized Officer shall estimate (based on the estimate of the Consulting Engineers of the Cost of Construction for the Project or any such Additional Project utilizing the Index Interest Rate) will be required to complete payment of the Cost of Construction of the Project or any such Additional Project, and demonstrating that the estimated Net Revenues in each of the Airport Fiscal Years set forth in (a) above is at least equal to 1.25 times Aggregate Adjusted Debt Service for the corresponding Airport Fiscal Year determined as described in (c) above; and

(5) A Counsel's Opinion to the effect that the issuance and sale of such Additional Bonds and the application of the proceeds thereof in accordance with the terms of the Supplemental Indenture authorizing such Bonds will not adversely affect the tax-exempt status of any Bonds outstanding immediately prior to the issuance of such Additional Bonds.

The proceeds, including accrued interest, of the Additional Bonds of each Series are to be applied simultaneously with the delivery of such Bonds in accordance with the Supplemental Indenture authorizing such Bonds or determining the terms and details thereof.

The amount of Pledged PFC Revenues that may be counted for the purpose of meeting the Additional Bonds Test pursuant to the Indenture for any Airport Fiscal Year may not exceed 125% of the sum of the outstanding and proposed PFC-Eligible Debt Service for such Airport Fiscal Year.

## **Refunding Bonds**

The Indenture authorizes the issuance of one or more Series of Refunding Bonds for the purpose of refunding all or a portion of the principal and/or interest components of (i) any Outstanding Bonds, (ii) any Subordinated Indebtedness, (iii) any Special Facilities Indebtedness, or (iv) any other indebtedness issued for Airport purposes. Refunding Bonds are to be issued in a principal amount sufficient, together with other moneys available therefor, to accomplish such refunding and to make the deposits in the Funds under the Indenture required by the provisions of the Supplemental Indenture authorizing such Bonds and determining the terms and details thereof.

Refunding Bonds of each Series issued to refund one or more Series of Outstanding Bonds or one or more maturities within a Series are to be authenticated and delivered by the Trustee only upon receipt by it from the City (in addition to the documents and moneys required by the Indenture) of:

(1) Irrevocable instruction to the Trustee, satisfactory to it, to give due notice of redemption of all Bonds to be redeemed, if any, on a redemption date specified in such instructions;

(2) If the Bonds to be refunded are not by their terms subject to redemption within the next succeeding 60 days, irrevocable instructions to the Trustee, satisfactory to it, to mail the notice provided in the Indenture to the Owners of the Bonds being refunded;

(3) Either (a) moneys in an amount sufficient to effect payment at the applicable Redemption Price of the Bonds to be refunded, together with accrued interest on such

Bonds to the redemption date, which moneys are to be held by the Trustee or any one or more of the Paying Agents in a separate account irrevocably in trust for and assigned to the respective Owners of the Bonds to be refunded, or (b) Government Securities in such principal amounts, of such maturities, bearing such interest, and otherwise having such terms and qualifications, as are necessary to comply with the provisions of the Indenture and any moneys required pursuant to the Indenture, which Government Securities and moneys are to be held in trust and used only as provided in the Indenture.

(4) Either of the following: (a) a certificate of an Authorized Officer of the City setting forth (i) the Aggregate Debt Service and the Aggregate Adjusted Debt Services for the then current and each future Airport Fiscal Year to and including the Airport Fiscal Year next preceding the date of the latest maturity of any Bonds of any Series then Outstanding (X) with respect to the Bonds of all Series Outstanding immediately prior to the date of authentication and delivery of such Refunding Bonds, and (Y) with respect to the Bonds of all Series to be Outstanding immediately thereafter, and (ii) that the Aggregate Debt Service and the Aggregate Adjusted Debt Service set forth for each Airport Fiscal Year pursuant to (Y) above are no greater than the corresponding amounts set forth for such Airport Fiscal Year pursuant to (X) above; or (b) the certificates required by the Indenture evidencing that such Series of Refunding Bonds meets the tests provided for by the Indenture considering, for all purposes of such certificates and test, that such Series of Refunding Bonds is a Series of Additional Bonds.

The proceeds, including accrued interest, of the Refunding Bonds of each such Series shall be applied simultaneously with the delivery of such Bonds for the purpose of making deposits in such Funds and Accounts under the Indenture as shall be provided in the Supplemental Indenture authorizing such Bonds or determining the terms and details thereof and is to be applied to the refunding purposes thereof in the manner provided in said Supplemental Indenture.

### **Pledge Effected by the Indenture**

The Bonds are secured by a pledge of, and the Bondholders are granted an express lien on (i) the proceeds of sale of the Bonds, (ii) GARB Revenues, (iii) Pledged PFC Revenues and (iv) all Funds established by the Indenture, including the investments, if any, thereof, and (v) all other property of every name and nature from time to time mortgaged, pledged or hypothecated as and for additional security under the Indenture by the City, or by anyone on its behalf or with its written consent, in favor of the Trustee, authorized to receive all such property at any time and to hold and apply the same, subject only to the rights of the holders of the Outstanding Obligations pursuant to the Outstanding Obligations Ordinances to the GARB Revenues of the Airport and the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth in the Indenture.

*PFC-Eligible 2001A ADP Projects.* The component projects of the 2001A ADP Project set forth in Appendix I to the Eighth Supplemental Indenture designated PFC-Eligible 2001A ADP Projects (aggregate principal amount of \$300,273,000) and the portion of the Debt Service on the 2001A ADP Bonds attributable to such PFC-Eligible 2001A ADP Projects constitute PFC-Eligible Debt Service. The amount of 2001A ADP Bond proceeds to be used to finance the component of the PFC-Eligible 2001A ADP Projects listed in Appendix I to the Eighth Supplemental Indenture may be increased or decreased so long as the total amount of 2001A ADP Bond proceeds used to finance the PFC-Eligible 2001A ADP Projects listed on Appendix I to the Eighth Supplemental Indenture remains the same.

The Debt Service on the 2001A ADP Bonds which is attributable to component projects of the 2001A ADP Projects and therefore is PFC-Eligible 2001A Debt Service and are set forth on Appendix II to the Eighth Supplemental Indenture. A portion of the proceeds of the 2005 Bonds and a portion of the

proceeds of the 2007A Bonds are being used to refund a portion of the PFC-Eligible 2001A ADP Bonds and those allocable portions of Debt Service on the 2005 Bonds and the 2007A Bonds are therefore PFC-Eligible Debt Service.

### **Pledged PFC Revenues**

*General.* Pledged PFC Revenues for a given PFC Year constitute that portion of the PFC Revenues that, for such PFC Year, equals 125% of the amount of PFC-Eligible Debt Service due during such PFC Year. The Pledged PFC Revenues for a given month are an amount equal to at least one-twelfth (1/12<sup>th</sup>) of the total of Pledged PFC Revenues for the PFC Year, plus any deficiencies in Pledged PFC Revenues for any prior month in such PFC Year.

The definition of Revenues, as set forth in the Restated Indenture, is amended to include the Pledged PFC Revenues.

Pursuant to the Indenture, the City has pledged the Pledged PFC Revenues for the benefit of the Owners of the Bonds. The City will not create a lien on Pledged PFC Revenues that is senior to the lien of the Bonds.

The City may, at any time with the execution and delivery of a Supplemental Indenture, submit additional PFC Revenues to the pledge of the Indenture.

*Limitation on Pledge of PFC Revenues to Other Obligations.* Prior to the Determination Date, the City is restricted from issuing any obligations the debt service on which will be payable, in whole or in part, from a pledge of PFC Revenues on a parity with the pledge of PFC Revenues to the Bonds unless Future O&D PFC Revenues for each PFC Year equal at least 125% of the aggregate of (i) the debt service on such obligations payable from Future PFC Revenues during such PFC Year, (ii) the Future PFC-Eligible Debt Service payable during such PFC Year and (iii) any other debt service payable from a pledge of PFC Revenues during such PFC Year.

### **Elimination of or Decrease in the Amount of Pledged PFC Revenues**

On or after the Determination Date, the City may decrease the amount of Pledged PFC Revenues pledged to the Bonds, or eliminate the pledge of the Pledged PFC Revenues to the Bonds, upon receipt by the Trustee from the City of both of the following:

(i) A certificate of the Airport Consultant setting forth for each of three Airport Fiscal Years following the Airport Fiscal Year in which the pledge of the Pledged PFC Revenues will be decreased or eliminated, estimates of (A) Net Revenues (as adjusted to reflect the reduction or elimination of Pledged PFC Revenues), (B) the Aggregate Adjusted Debt Service (determined after giving effect to any Additional Bonds to be issued on or before the date of decrease or elimination of such pledge), and (C) demonstrating that the estimated Net Revenues set forth in (A) are at least equal to 1.25 times Aggregate Adjusted Debt Service for the corresponding Airport Fiscal Year determined as set forth in (B) above; and

(ii) An opinion of Bond Counsel to the effect that all conditions precedent to the decrease or elimination of the Pledged PFC Revenues have been met and such decrease or elimination will not adversely affect exclusion from gross income for federal income tax purposes of the interest on *any* Outstanding Bonds.

## **Establishment of Funds**

The Indenture establishes the following Funds relating to the Series 2007A Refunding Bonds:

- (A) Airport Revenue Fund, to be held by the City;
- (B) Airport Operation and Maintenance Fund, to be held by the City;
- (C) Airport Bond Fund held by the Trustee, including the 2007A Debt Service Sub-Account of the Debt Service Account;
- (D) Debt Service Reserve Account within the Airport Bond Fund, including the 2007A Debt Service Reserve Sub-Account of the Debt Service Reserve Account;
- (E) Airport Costs of Issuance Subaccount within the Airport Construction Fund, including the 2007A Airport Costs of Issuance Account of the 2007A Airport Construction Account of the Construction Fund;
- (F) Debt Service Stabilization Fund, to be held by the City;
- (G) Airport Renewal and Replacement Fund, to be held by the City;
- (H) Airport Development Fund, to be held by the City;
- (I) Debt Service Stabilization Fund, to be held by the City; and
- (J) Airport Arbitrage Rebate Fund, to be held by the City.

## **Application of Revenues**

*General.* All Revenues as received are to be promptly deposited by the City into the Revenue Fund; provided, however, that the City is required to deposit PFC Revenues into the Revenue Fund in an amount equal to at least one-twelfth (1/12th) of the total of Pledged PFC Revenues for the current PFC Year, plus any deficiencies in prior transfers during such PFC Year by no later than six (6) Business Days before the end of each month. Deposits into the Revenue Fund are to be adjusted to give credit for any excess money in the Revenue Fund prior to any such transfer.

No later than five (5) Business Days before the end of each month and prior to the transfers described in the paragraph below, the City is required to transfer from the Revenue Fund to the Trustee for deposit into the Debt Service Account PFC Revenues in an amount equal to at least one-twelfth (1/12<sup>th</sup>) of the PFC-Eligible Debt Service for such PFC Year, plus any deficiencies in payments made in prior months during such PFC Year. Transfers to the Debt Service Account are to be adjusted to give credit for any excess money in the Debt Service Account prior to any such transfer.

As soon as practicable in each month after the deposit of Revenues in the Revenue Fund but in any case no later than five business days before the end of each month, and after the transfer described in the preceding paragraph, the City is required to withdraw from the Revenue Fund for deposit in the following Funds in the following order of priority the amounts set forth below:

- (1) To the Operation and Maintenance Fund, an amount sufficient to pay the estimated Operation and Maintenance Expenses during the next month;

(2) To the Bond Fund for credit to the Debt Service Account, if and to the extent required so that the balance in said Account will equal the Accrued Aggregate Debt Service on the Bonds; provided that, for the purposes of computing the amount in said Account, there is to be excluded the amount, if any, set aside in said Account which was deposited therein from the proceeds of each Series of Bonds less the amount of interest accrued and unpaid and to accrue on the Bonds of such Series (or any Refunding Bonds issued to refund such Bonds) to the last day of the then current calendar month;

(3) To the Bond Fund for credit to the Debt Service Reserve Account, an amount sufficient to maintain a balance in such Account equal to the Debt Service Reserve Requirement; provided, however, no deposit in the Debt Service Reserve Account will be required to the extent the amount therein equals or exceeds the Debt Service Reserve Requirement and in the event the amount in the Debt Service Reserve Account is reduced below the amount otherwise required therein, such amount will be replenished (i) immediately, first from any funds in the sub-account in the Revenue Fund referred to in clause (5) below and, thereafter, from other available funds, in such priority as the City may direct in the Contingency Fund, the Development Fund and the Renewal and Replacement Fund and (ii) at the earliest practicable date, to the extent such funds are not sufficient for such purpose, from the first available Revenues (after all deposits required to be made pursuant to clauses (1) and (2) described above have been made) following such reduction; provided, however, notwithstanding anything to the contrary in the Indenture, to the extent that a deficiency exists in the Debt Service Reserve Account, such deposits to the Bond Fund will be made in the order of priority indicated:

(a) To the Bond Fund for credit to the Debt Service Reserve Account, there will be deposited, at least monthly, to the Debt Service Reserve Account for a Series of Bonds an amount at least equal to 1/60 of the Debt Service Requirement for such Series of Bonds until the amount on deposit in the Debt Service Reserve Account will equal the Debt Service Reserve Requirement. The Debt Service Reserve Requirement will be cumulative and the amount of any deficiency in any month will be added to the amount otherwise required to be deposited to the credit of such Debt Service Reserve Account in each month thereafter until time as such deficiency will be remedied;

(b) To the Bond Fund for credit to the Debt Service Reserve Account, there will be deposited, at least monthly to the Debt Service Reserve Account for a Series of Bonds an amount equal to 1/12 of the deficiency attributed to a draw (or diminution in stated principal) upon a financial instrument as specified in the definition of Debt Service Reserve Requirement, deposited into the Debt Service Reserve Account until the principal amount (or available amount) of such financial instrument, either singularly, or in combination with amounts on deposit therein, is equal to the Debt Service Reserve Requirement if and only if such amounts are attributable to such Series of Bonds; and

(c) To the Bond Fund for credit to the Debt Service Reserve Account, there will be deposited to the Debt Service Reserve Account as soon as practicable (but not later than thirty days from the date of such deficiency), the full amount of any deficiency in the Debt Service Reserve Account, which is attributable to a decline in the market value of Investment Securities on deposit therein until such securities and any cash therein will equal the Debt Service Reserve Requirement;

(d) To the Arbitrage Rebate Fund, there shall be deposited as soon as practicable, the amount necessary to fund the Arbitrage Rebate Fund in order to pay the Rebate Amount when due and payable;



(e) Amounts sufficient to pay Subordinated Indebtedness in accordance with the authorizing and implementing documents for such Subordinated Indebtedness (as certified by the trustee or other fiduciary with respect to such Subordinated Indebtedness) shall be transferred by the City to such trustee or other fiduciary for payment or deposit;

(f) To the Renewal and Replacement Fund, an amount equal to Fifty Seven Thousand Dollars (\$57,000); provided that, no deposit will be required to be made into said Fund whenever and as long as uncommitted moneys in said Fund are equal to or greater than Three Million Five Hundred Thousand Dollars (\$3,500,000) or such larger amount as the City will determine necessary, from time to time, for the purposes of said Fund; and provided further that, if any such monthly allocation to said Fund will be less than the required amount, the amount of the next succeeding monthly payments will be increased by the amount of such deficiency;

(g) To a sub-account in the Revenue Fund, an amount determined from time to time by the City, such that if deposits were made in amounts equal to such amount in each succeeding month during each Airport Fiscal Year, the balance in such sub-account will equal at the end of such Airport Fiscal Year the amounts payable to the City with respect to such Airport Fiscal Year pursuant to the Indenture;

(h) For Airport Fiscal Years ending June 30, 2006 through June 30, 2011, to the Debt Service Stabilization Fund and the Airport Development Fund for the times and in the amounts and pursuant to the calculations set forth below:

(a) For Airport Fiscal Year ending June 30, 2006, to the Debt Service Stabilization Fund and the Airport Development Fund a total of up to \$5,468,000, with 90.13% of each such transfer to the Debt Service Stabilization Fund and 9.87% of each such transfer to the Airport Development Fund;

(b) For Airport Fiscal Year ending June 30, 2007, as follows:

(i) To the Debt Service Stabilization Fund any amounts withdrawn therefrom during Airport Fiscal Year ending June 30, 2006 and not previously replenished; and then

(ii) To the Debt Service Stabilization Fund and the Airport Development Fund a total of up to \$6,475,000, with 90.18% of each such transfer to the Debt Service Stabilization Fund and 9.82% of each such transfer to the Airport Development Fund;

(c) For Airport Fiscal Year ending June 30, 2008, as follows:

(i) To the Debt Service Stabilization Fund any amounts withdrawn therefrom during Airport Fiscal Years ending June 30, 2006 and 2007 and not previously replenished; and then

- (ii) To the Debt Service Stabilization Fund and the Airport Development Fund a total of up to \$6,480,000, with 22.70% of each such transfer to the Debt Service Stabilization Fund and 77.30% of each such transfer to the Airport Development Fund;
- (d) For Airport Fiscal Year ending June 30, 2009, as follows:
  - (i) To the Debt Service Stabilization Fund any amounts withdrawn therefrom during Airport Fiscal Years ending June 30, 2006 through 2008 and not previously replenished; and then
  - (ii) To the Debt Service Stabilization Fund and the Airport Development Fund a total of up to \$7,643,000, with 85.79% of each such transfer to the Debt Service Stabilization Fund and 14.21% of each such transfer to the Airport Development Fund;
- (e) For Airport Fiscal Year ending June 30, 2010, as follows:
  - (i) To the Debt Service Stabilization Fund any amounts withdrawn therefrom during Airport Fiscal Years ending June 30, 2006 through 2009 and not previously replenished; and then
  - (ii) To the Debt Service Stabilization Fund and the Airport Development Fund a total of up to \$6,420,000, with 100% of each such transfer to the Debt Service Stabilization Fund and 0% of each such transfer to the Airport Development Fund;
- (f) For Airport Fiscal Year ending June 30, 2011, as follows:
  - (i) To the Debt Service Stabilization Fund any amounts withdrawn therefrom during Airport Fiscal Years ending June 30, 2006 through 2010 and not previously replenished; and then
  - (ii) To the Debt Service Stabilization Fund and the Airport Development Fund a total of up to \$5,725,000, with 87.25% of each such transfer to the Debt Service Stabilization Fund and 12.75% of each such transfer to the Airport Development Fund;
- (4) Beginning in Airport Fiscal Year ending June 30, 2012, and thereafter, to the Debt Service Stabilization Fund an amount sufficient to bring the amount on deposit in the Debt Service Stabilization Fund equal to the Debt Service Stabilization Fund Requirement (or such lesser amount as is available in the Revenue Fund for such transfer).

(5) The remaining GARB Revenues in the Revenue Fund will be deposited into the Development Fund;

(6) The remaining Pledged PFC Revenues in the Revenue Fund will be deposited into the PFC Account.

As soon as practicable after the end of each Airport Fiscal Year and except as otherwise provided in the Indenture and subject to the satisfaction of the conditions set forth therein, after all deposits required to be made into each of the aforesaid Funds have been made, the City is required to transfer from the sub-account in the Revenue Fund to the general revenue fund of the City, an amount equal to five percent (5%) of the GARB Revenues (excluding, however, from GARB Revenues, for this purpose only, investment income and other non-operating income of the Airport) during the Airport Fiscal Year then last ended; provided, however, for all periods subsequent to July 1, 1996, the applicable percentage of GARB Revenues (as determined above) will equal the percentage of the gross revenues required to be paid to the City by public utilities operating within the City (such percentage currently being ten percent).

The amounts payable to the City described in the preceding paragraph are limited to five percent of the GARB Revenues (excluding, however, from GARB Revenues, for this purpose only, investment income and other non-operating income of the Airport) until such time that the Trustee has received a Counsel's Opinion to the effect that the amount payable does not violate or conflict with any laws or contractual obligations applicable to the Airport and the City, including, without limitation, the Federal Airport and Airway Improvement Act of 1982 and the U.S. Department of Transportation Grant Agreements to which the City is a party.

The amount payable to the general revenue fund of the City described in the preceding paragraphs may be paid in advance in monthly installments so long as (i) such amount is included in the rate base utilized to determine rates and charges payable by air carriers which utilize the Airport and (ii) each such monthly installment will not exceed the lesser of one-twelfth ( $1/12^{\text{th}}$ ) of eighty percent (80%) of the total amount paid to the City pursuant to such clause in respect of the prior Airport Fiscal Year or (2) eighty percent of the amount deposited in such month in the sub-account in the Revenue Account in respect of the amounts payable pursuant to the preceding paragraphs.

The final installment of the amount payable to the City in each Airport Fiscal Year is subject to the filing with the Trustee of certificates of the City that all required deposits to the Operation and Maintenance Fund, the Bond Fund and the Renewal and Replacement Fund have been made and that no Event of Default has occurred and is continuing under the Indenture. If, during any Airport Fiscal Year, the aggregate amount paid in advance to the City exceeds the amount payable to the City during such Airport Fiscal Year, the amount of such excess will be returned by the City to the Revenue Fund. Until any such excess is returned by the City to the Revenue Fund, the City will be entitled to no further payments by the Airport.

*Application of PFC Revenues Not Needed for Debt Service.* City-Held PFC Revenues on deposit in the PFC Account and Pledged PFC Revenues not needed to pay debt service on the Bonds pursuant to the terms of the Indenture may be transferred by the City to the PFC Account and applied by the City (e.g., to pay pay-as-you-go costs or other eligible costs or to redeem Outstanding Bonds or other obligations the proceeds of which were used to finance PFC-Eligible Projects) to the extent that, after such application, either of the following conditions is satisfied:

(a) if the date of such application is prior to the Determination Date, the sum of Future PFC Revenues, City-Held PFC Revenues and Trustee-Held PFC Revenues is equal to or greater than the sum of (i) 125% of Future PFC-Eligible Debt Service and (ii) Other Obligations PFC-Eligible Debt Service; or

(b) if the date of such application is on or after the Determination Date, the sum of Future PFC Revenues, City-Held PFC Revenues and Trustee-Held PFC Revenues is equal to or greater than 100% of Future PFC-Eligible Debt Service.

### **Description of Funds Established by the Indenture**

*Operation and Maintenance Fund.* Amounts in the Operation and Maintenance Fund are to be paid out from time to time by the City for reasonable and necessary Operation and Maintenance Expenses. Amounts in said Fund which the City at any time determines to be in excess of the requirements of such Fund will be transferred into the Revenue Fund and applied in accordance with the provisions of the Indenture regarding the application of Revenues.

*Bond Fund-Debt Service Account.* The Trustee is required to pay out of the Debt Service Account to the respective Paying Agents (1) on or before each interest payment date for any of the Bonds, the amount required for the interest payable on such date, (2) on or before each Principal Installment due date, the amount required for the Principal Installment payable on such due date; and (3) on or before the day preceding any redemption date for the Bonds, the amount required for the payment of interest on the Bonds then to be redeemed. Such amounts are required to be applied by the Paying Agents on and after the due dates thereof. The Trustee is also required to pay out of the Debt Service Account the accrued interest included in the purchase price of Bonds purchased for retirement.

*Bond Fund-Debt Service Reserve Account.* If, immediately after each monthly transfer required by the Indenture provision concerning application of Revenues, the amount in the Debt Service Account shall be less than the amount required to be in such Account pursuant to the Indenture, after any transfers from the Debt Service Stabilization Fund, the Trustee shall transfer amounts from the Debt Service Reserve Account to the Debt Service Account to the extent necessary to make good such deficiency or deficiencies. Whenever the moneys on deposit in the Debt Service Reserve Account exceed the Debt Service Reserve Requirement, the Trustee, at the direction of an Authorized Officer of the City, is required to transfer the amount of such excess to the City in the manner set forth in the Indenture. If, as of June 30 of each year, the amount in any Account in the Debt Service Reserve Account exceeds the applicable Debt Service Reserve Requirement after giving effect to any letter of credit, revolving credit agreement, standby purchase agreement, surety bond, insurance policy or similar obligation, arrangement or instrument issued by a bank, insurance company or other financial institution which provides for payment of all or a portion of the Principal Installments and/or interest due on any Series of Bonds, deposited in such Account, the Trustee will, on the first business day of the following Airport Fiscal Year, withdraw from such Account the amount of any excess therein over the applicable Debt Service Reserve Requirement as of the date of such withdrawal for deposit into (i) the Arbitrage Rebate Fund, the amount estimated by the City to be required by the Code to be rebated to the Department of the Treasury, if any, and (ii) the Revenue Fund, the amount of any excess then remaining in the Debt Service Reserve Account over the applicable Debt Service Reserve Fund Requirement. If the amount in any Account in the Debt Service Reserve Account is less than the applicable Debt Service Reserve Requirement and to the extent that such deficiency has not been made up within 12 months with respect to a deficiency resulting from a draw on the Debt Service Reserve Account by deposits pursuant to the Indenture or to the extent there has been a deficiency resulting from a decline in market value, the City will immediately deposit such amounts as will be necessary to cure such deficiency.

Whenever the amount in the Debt Service Reserve Account, together with the amount in the Debt Service Account, is sufficient to fully pay all Outstanding Bonds in accordance with their terms (including principal and applicable sinking fund Redemption Price and interest thereon), the funds on deposit in the Debt Service Reserve Account are to be transferred to the Debt Service Account. Prior to said transfer, all investments held in the Debt Service Reserve Account are to be liquidated to the extent deemed necessary in order to provide for the timely payment of principal and interest (or Redemption Price) on the Bonds Outstanding.

The Trustee is required to transfer to the City for deposit in the Revenue Fund all investment earnings on moneys in the Debt Service Reserve Account, such transfer to be made at such times required by the City.

*Renewal and Replacement Fund.* Money in the Renewal and Replacement Fund may be applied to pay costs of the renewal or replacement of machinery, equipment, rolling stock, facilities or other capital items used in connection with the operation of the Airport. If at any time the moneys in the Debt Service Account, the Debt Service Reserve Account, the Debt Service Stabilization Fund, the Development Fund and the Contingency Fund are insufficient to pay the interest and Principal Installments when due on the Bonds, the City, upon requisition of the Trustee, is required to transfer from the Renewal and Replacement Fund to the Trustee for deposit in the Debt Service Account the amount necessary (or all of the moneys in said Fund if less than the amount necessary) to make up such deficiency. So long as there is no deficiency in the Debt Service Account or the Debt Service Reserve Account, in the event the City receives a requisition from the trustee or other fiduciary for any Subordinated Indebtedness, with respect to a deficiency in available moneys to pay debt service on Subordinated Indebtedness, then the City shall transfer from the Renewal and Replacement Fund to such trustee or other fiduciary, the amount necessary (or all the moneys in said Fund if less than the amount necessary) to make up such deficiency. If at any time the moneys in the Operation and Maintenance Fund and the Contingency Fund will be insufficient to pay Operation and Maintenance Expenses when due, the City is required to transfer from the Renewal and Replacement Fund to the Operation and Maintenance Fund the amount necessary (or all of the moneys in said Fund if less than the amount necessary) to make up such deficiency. If the amount on deposit at any time in the Debt Services Reserve Account is reduced below the amount required therein pursuant to the Indenture, the City may transfer from the Renewal or Replacement Fund to the Debt Service Reserve Account all or a portion of the amount of such deficiency.

*Development Fund.* Moneys in the Development Fund may be applied, in accordance with the Capital Budget or otherwise, at the discretion of the City, to the acquisition of land or easements for the expansion or improvement of the Airport, to purchase items of machinery, equipment, rolling stock or other capital items for use in connection with the Airport, to pay the cost of planning, engineering, design and construction of new facilities for the Airport, or to pay the cost of any other capital improvements to the Airport. If at any time the moneys in the Debt Service Account, Debt Service Reserve Account, the Debt Service Stabilization Fund, and the Contingency Fund are insufficient to pay the interest and Principal Installments when due on the Bonds, the City, upon requisition of the Trustee, is required to transfer from the Development Fund to the Trustee for deposit in the Debt Service Account the amount necessary to make up such deficiency (or all of the moneys in said Fund if less than the amount necessary). So long as there is no deficiency in the Debt Service Account or the Debt Service Reserve Account, in the event the City receives a requisition from the trustee or other fiduciary for any Subordinated Indebtedness, with respect to a deficiency in available moneys to pay debt service on Subordinated Indebtedness, then the City shall transfer from the Development Fund to such trustee or other fiduciary, the amount necessary (or all the moneys in said Fund if less than the amount necessary) to make up such deficiency. If at any time the moneys in the Operation and Maintenance Fund, the Renewal and Replacement Fund and the Contingency Fund are insufficient to pay Operation and Maintenance expenses when due, the City is required to transfer from the Development Fund to the

Operation and Maintenance Fund the amount necessary to make up such deficiency. The City may use amounts on deposit in the Development Fund to make payments pursuant to an Interest Rate Exchange Agreement by transferring such amounts to the Debt Service Account of the Bond Fund or as otherwise specified in a Supplemental Indenture for such Series of Bonds. The City may, but if and only to the extent consistent with the Capital Budget, transfer from the Development Fund to the Contingency Fund any moneys in the Development Fund which are no longer needed for the purposes of moneys on deposit in the Development Fund.

*Contingency Fund.* If at any time the moneys in the Debt Service Account, the Debt Service Reserve Account and the Debt Service Stabilization Fund are insufficient to pay the interest and Principal Installments when due on the Bonds, the City, upon requisition of the Trustee, is required to transfer from the Contingency Fund to the Trustee for deposit in the Debt Service Account the amount necessary (or all of the moneys in said Fund if less than the amount necessary) to make up such deficiency or deficiencies. If at any time the moneys in the Operation and Maintenance Fund are insufficient to pay Operation and Maintenance Expenses when due, the City will transfer from the Contingency Fund to the Operation and Maintenance Fund the amount necessary (or all of the moneys in said Fund if less than the amount necessary) to make up such deficiency. If the amount on deposit in the Debt Service Reserve Account is reduced below the amount required therein, the City may transfer from the Contingency Fund to the Debt Services Reserve Account all or a portion of the amount of such deficiency. Amounts in the Contingency Fund not required to meet a deficiency as required above, may, at the discretion of the City, be applied to any one or more of the following purposes:

1. the purchase or redemption of any Bonds, and expenses in connection with the purchase or redemption of any such Bonds;
2. payments of principal or redemption price of and interest on any Subordinated Indebtedness;
3. improvements, extensions, betterments, renewals, replacements, repairs, maintenance or reconstruction of any properties or facilities of the Airport or the provision of one or more reserves therefor; and
4. any other corporate purpose of the City in connection with the Airport, the local airport system or other local facilities which are owned or operated by the City and directly related to the actual transportation of passengers or property.

Whenever any moneys in the Contingency Fund are to be applied to the purchase or redemption of Bonds, the City is required to deposit such moneys with the Trustee, in a separate account established for purpose, and is required to give written instructions to the Trustee to make such purchase or redemption in accordance with the provisions of the Indenture. Upon any such purchase or redemption of Bonds of any Series and maturity for which Sinking Fund Installments have been established, an amount equal to the principal amount of such Bonds so purchased or redeemed is to be credited toward a part (an integral multiple of \$5,000) or all of any one or more Sinking Fund Installments thereafter to become due, as directed by the City in a certificate in writing signed by an Authorized Officer of the City and filed with the Trustee, or in the absence of such direction, toward such Sinking Fund Installments in inverse order of their due dates. The portion of any such Sinking Fund Installment remaining after the deduction of any such amounts credited toward the same (or the original amount of any such Sinking Fund Installment if no such amounts shall have been credited toward the same) will constitute the unsatisfied balance of such Sinking Fund Installment for the purpose of calculation of Sinking Fund Installments due on a future date.

*Debt Service Stabilization Fund.* If, immediately after each monthly transfer required by the Indenture, the amount in the Debt Service Account shall be less than the amount required to be in such Account pursuant to the Indenture, the City shall transfer amounts from the Debt Service Stabilization Fund to the Trustee for deposit to Debt Service Account to the extent necessary to make good such deficiency or deficiencies. Amounts on deposit in the Debt Service Stabilization Fund may be withdrawn at any time and used for (1) monthly transfers to the Trustee for deposit to the Debt Service Account to the extent necessary to replenish any deficiency or deficiencies therein, (2) emergency debt service needs with respect to Bonds, Subordinated Indebtedness or other indebtedness issued for Airport purposes, and (3) Airport operational emergencies. Notwithstanding the foregoing, after the Net Revenues for three consecutive Fiscal Years equals at least 1.60 times the Aggregate Adjusted Debt Service for such Fiscal Years, the Comptroller, upon the receipt of a request of the Airport Authority, may determine to reduce or eliminate the Debt Service Stabilization Fund Requirement and/or eliminate the Debt Service Stabilization Fund. The Comptroller, upon any such determination, shall notify the Airport Authority and the Trustee of such determination.

### **Arbitrage Rebate Fund**

The Arbitrage Rebate Fund is required to be maintained by the City for as long as any Series of Bonds is Outstanding for the purpose of paying to the United States Treasury the amount required to be rebated pursuant to Section 148(f) of the Code. Any moneys in the Rebate Fund are to be invested in Government Obligations and investment earnings are to be credited to the Rebate Fund.

### **Subordinated Indebtedness**

Nothing contained in the Indenture will prohibit or prevent, or be deemed, or construed, to prohibit or prevent, the City from issuing or refunding bonds, notes, commercial paper, certificates, warrants or other evidence of indebtedness payable as to principal and interest from the Revenue Fund and the Net Revenues, subject and subordinate to the deposits and credits required to be made therefrom to the Debt Service Account and the Debt Service Reserve Account, or from securing such bonds, notes, commercial paper, certificates, warrants or other evidences of indebtedness and the payment thereof by a lien and pledge on the Net Revenues junior and inferior to the lien and pledge on the Net Revenues herein created for the payment and security of the Bonds.

Subject to the paragraph below, at any time after authorization but prior to the issuance of Subordinated Indebtedness, the City shall furnish to the Trustee a Certificate of the City with respect to the specific principal amount of Subordinated Indebtedness proposed to be issued (the "Certified Amount"), and that provides as follows: annual estimated Net Revenues available, after payment of Debt Service of the Outstanding Bonds, for each of the three (3) Airport Fiscal Years following the Airport Fiscal Year in which it is estimated that the Airport has beneficial occupancy of the Airport project to be financed or refinanced (in whole or in part) from the proceeds of such Certified Amount, will be at least equal to 1.10 times the sum of (1) estimated debt service on the Certified Amount proposed to be issued, (2) debt service on all outstanding Subordinate Indebtedness, and (3) estimated debt service on any other previously Certified Amounts to the extent that such Certified Amounts are not outstanding but are still authorized and available to be issued.

For purposes of compliance with the paragraph above, the Certificate of the City may include any of the following provisions or assumptions:

1. Once executed with respect to a Certified Amount, the Certificate of the City shall remain effective with respect to all issuances and reissuances, from time to time (and regardless of any repayment or maturity) of such Certified Amount until the

authorized time period for issuance and final maturity of such Certified Amount has expired. (By way of example, (i) if the Certified Amount is with respect to a commercial paper program, then once such amount is certified with respect to the initial Airport project, such certificate shall remain effective until the final eligible maturity date of the commercial paper has passed such that it cannot be issued, re-issued or refunded; or (ii) if the Certified Amount is with respect to long-term fixed rate bonds, then once certified such certificate shall remain effective until such bonds or notes are issued and they mature or are paid off or defeased prior to maturity.)

2. With respect to the identification of the Airport project to be financed or refinanced (in whole or in part) with the proceeds of the Certified Amount and the determination of the applicable three (3) Airport Fiscal Years for the coverage test, the Certificate of the City may assume, without regard to the estimated beneficial occupancy date of a specific Airport project, that, with respect to the Certified Amount, the three (3) year test period begins with the first full Airport Fiscal Year beginning after the date of the Certificate of the City.

3. If the Certified Amount is structured so that the principal coming due on the final maturity date exceeds by at least 25% the principal coming due in any prior year then debt service on the Certified Amount may be calculated based upon an assumed 30-year level debt amortization schedule and applying a 10-year average of The Bond Buyer Revenue Bond Index (or any successor to or replacement of such Index). For purposes of calculating estimated debt service for any Certified Amount, the calculation may be based on then prevailing market conditions as determined by a third party expert or by applying the appropriate average of The Bond Buyer Revenue Bond Index (or any successor to or replacement of such Index) as determined by the City or a third party expert.

4. The Certificate of the Authorized Officer of the City may be based, in whole or in part, upon reports or certificates from the Airport Consultant, an Accountant's Certificate or reports of other third party experts.

5. Subordinated Indebtedness issued for the following purposes may be excluded from any calculation of debt service coverage with respect to Subordinated Indebtedness (including certification with respect to a Certified Amount):

i. Subordinated Indebtedness issued to refund outstanding Subordinated Indebtedness.

ii. Subordinated Indebtedness issued to refund Outstanding Bonds.

iii. Subordinated Indebtedness which the City expects to pay from a source of funds other than estimated Net Revenues available, after payment of Debt Service of the Outstanding Bonds, to the extent such source is anticipated as being available or obligated to the City for Airport purposes, such as grant moneys, passenger facilities charges or other available moneys, including, without limitation, moneys in the Airport Development Fund.

Any ordinance or indenture providing for the issuance of Subordinated Indebtedness may provide that additional Subordinated Indebtedness may be issued on a parity therewith.



The principal amount of any Subordinated Indebtedness shall, by its terms, not be subject to acceleration upon default unless and until the principal amount of the Bonds has been accelerated pursuant to the Indenture.

### **Expenditures from City Held Funds and Accounts**

Expenditures from any Funds and Accounts held by the City shall be subject to the then existing requirements for expenditure of City funds, which requirements currently consist of approvals by the Airport Commission and the Board of Estimate and Apportionment of the City and appropriation of funds by the Board of Aldermen of the City. Notwithstanding the foregoing, if the timing of the need for any expenditure of moneys from any Fund or Account held by the City is deemed an emergency, then the approval of the expenditure of such moneys may occur in accordance with the provisions of Article XV, Section 2 of the City Charter, or any successor provision.

### **Investment of Certain Funds**

Moneys held in the Debt Service Account and the Debt Service Reserve Account are to be invested and reinvested by the Trustee to the fullest extent practicable in Investment Securities which mature not later than such times as will be necessary to provide moneys when needed for payments to be made from such Fund and Accounts, and in the case of the Debt Service Reserve Account not later than 15 years (unless such securities will be redeemable at the option of the holder thereof, in which event such securities may mature at a date no later than the final maturity date of the Bonds). The Trustee will make such investment in accordance with any instructions received from an Authorized Officer of the City. The Trustee, upon notice to and written consent of an Authorized Officer of the City, may make any and all such investments through its own bond department or the bond department of any bank or trust company under common control with the Trustee.

Moneys in the Revenue Fund and the Construction Fund may be invested by the City in Investment Securities which mature not later than such time as will be necessary to provide moneys when needed to provide payments from such Funds. Moneys in the Operation and Maintenance Fund may be invested by the City in Investment Securities which mature within 12 months and moneys in the Development Fund, the Renewal and Replacement Fund and the Contingency Fund may be invested in Investment Securities which mature within 5 years, and in any case not later than such time as will be necessary to provide moneys when needed for payment from such respective Funds.

Earnings on any moneys on investments on all Funds and Accounts established under the Indenture will be deposited in the Revenue Fund, except that earnings on the moneys or investments in the Construction Fund will, to the extent expressly required by the terms of any Supplemental Indenture authorizing the issuance of a Series of Bonds, be retained in the Construction Fund.

### **Particular Covenants of the City**

*Powers as to the Airport and Collection of Rates, Fees and Rentals.* The City has and will have so long as any Bond are Outstanding, good right and lawful authority to acquire, construction develop, operate, maintain, repair, improve, reconstruct, enlarge, and extend the Airport and to fix rates, fees, rentals and other charges in connection therewith.

*Indebtedness and Liens.* The City has covenanted not to issue any bonds, notes or other evidences of indebtedness, other than the Bonds, payable out of or secured by a pledge of the Revenues or of the moneys, securities of funds held or set aside by the City or by the Fiduciaries under the Indenture and will not create or cause to be created any lien or charge on the Revenues or such moneys, securities or funds;

provided, however, that nothing contained in the Indenture will prevent the City from issuing Subordinated Indebtedness as provided in the Indenture.

*Sale, Lease or Encumbrance of Property.* The City has covenanted not to sell or otherwise dispose of or encumber any part of the Airport, except property which, in the opinion of the Airport Commission and the Airport Consultant, is no longer necessary or useful in the operation thereof, and except as provided in the Indenture with respect to Special Facilities. In addition, the City may lease or make contracts or grant licenses for the operation of, or grant easements or other rights with respect to, any part of the Airport if such lease, contract, license, easement or right does not impede or restrict the operation by the City of the Airport for Airport purposes. Proceeds from the sale or disposition of property not used to replace such property and any such payments with respect to a lease, contract, license, easement or right not otherwise required to be applied in accordance with the Indenture will be applied in the same manner and to the same purpose as Revenues.

The Indenture expressly permits the transfer (by sale, lease or otherwise) of all or a substantial part of the Airport if the principal of and interest on the Bonds are paid in full; the Bonds are defeased in accordance with the Indenture; or the transferee assumes all obligations of the City under the Indenture and in the Bonds and if, in the case of such assumption: (1) in the written opinions of the Director of Airports and the Airport Consultant, after giving effect to such transfer and assumption, the ability of the transferee to meet the rate maintenance and other covenants under the Indenture and the security for the Bonds are not materially and adversely affected, (2) the City will have furnished the Trustee with a Counsel's Opinion to the effect that such transfer will not adversely affect the tax-exempt status of interest on the Bonds under the Code and (3) such transferee will expressly agree not to use the Funds held under the Indenture otherwise than as provided in the Indenture. In the event of any such transfer and assumption, nothing in the Indenture will prohibit or prevent the retention by the City of any facility of the Airport if, in the written opinions of the Director of Airports and the Airport Consultant, such retention will not materially and adversely affect the security for the Bonds, nor unreasonably restrict the transferee's ability to comply with the rate maintenance and other covenants thereunder. Any consideration received by the City from the transferee of all or a substantial part of the Airport will not constitute "Revenues" under the Indenture or be subject to the terms and provisions of the Indenture. The terms and conditions of the transfer of all or a substantial part of the Airport pursuant to the Indenture will be set forth in a Supplemental Indenture executed by the City, the Trustee and the transferee and notice of such transfer will be given to the Bondholders in accordance with the Indenture.

*Operation Maintenance and Reconstruction.* The City shall at all times operate, or cause to be operated, the airport properly and in a sound, efficient and economical manner and shall maintain, preserve, and keep the same or cause the same to be maintained, preserved, and kept with the appurtenances and every part and parcel thereof, in good repair, working order and condition, and shall from time to time make or cause to be made, all ordinary, necessary and proper repairs, replacements and renewals so that at all times the operation of the Airport may be properly and advantageously conducted, and if any useful part of the Airport is damaged or destroyed, the City shall, as expeditiously as may be possible, commence and diligently prosecute the ordinary replacement or reconstruction of such part so as to restore the same to use; provided, however, that nothing in the Indenture shall require the City to operate, maintain, preserve, repair, replace, renew or reconstruct any part of the Airport (1) from sources other than the Revenues or (2) if there shall be filed with the Trustee (i) a certificate executed by an Authorized Officer of the City stating that in the opinion of the City abandonment of operation of such part is economically justified and is not prejudicial to the interests of the Owners of the Bonds, and (ii) a consent to the filing of such certificate is given by the Trustee, which consent shall be withheld only upon reasonable grounds.

Notwithstanding any provisions in the Indenture to the contrary, the City and the Airport Authority shall at all times operate the Airport so long as there are any Outstanding Bonds under the Indenture. Operation of the Airport may not be transferred by the City or the Airport Authority to another entity and may not be assumed by any other entity so long as there are any Outstanding Bonds under the Indenture; provided, however, that the City and the Airport Authority may enter into agreements with third party vendors, consultants and contractors for specific aspects or portions of the maintenance or operation of the Airport or the construction of capital projects at the Airport.

*Rates and Charges.* The City has covenanted to, at all times while any Bonds will be Outstanding, establish, fix, prescribe and collect such rates, fees, rentals and other charges for the use of the Airport as will be reasonably anticipated to provide in each Airport Fiscal Year an amount so that the Revenues will be sufficient to pay the Aggregate Debt Service for such Airport Fiscal Year and to provide the funds necessary to make the required deposits in and maintain the several Funds and Accounts established in the Indenture, and in any event, as will be required to pay or discharge all indebtedness, charges and liens whatsoever payable out of Revenues under the Indenture.

*Insurance.* So long as any Bonds are Outstanding the City will at all times carry insurance or cause insurance to be carried, including the City as an insured as its interest may appear, with a responsible insurance company or companies authorized and qualified under the laws of any state of the United States of America to assume the risk thereof, covering such properties of the Airport as are customarily insured, and against loss or damage from such causes as are customarily insured against, by public or private corporations engaged in a similar type of business, all in accordance with the annual written recommendations of the Insurance Consultant.

Any proceeds of insurance for the Airport will be paid into the Construction Fund during the period of Construction, and thereafter will, to the extent necessary and desirable, be applied to the repair and replacement of any damaged or destroyed properties of the Airport. If any of said proceeds received are not used or committed for use with respect to the repair or replacement of Airport property within twenty-four months of receipt, such proceeds will be paid into the Development Fund.

*Airport Consultant.* The City will employ an Airport Consultant from time to time whenever and for the purposes contemplated by the Indenture. Such Airport Consultant will be an airport consultant or airport consultant firm or corporation having a wide and favorable reputation for skill and experience with respect to the operation and maintenance of airports, in recommending rental and other charges for use of airport facilities and in projecting revenues to be derived from the operation of airports.

*Budgets.* The City has covenanted to prepare and file annually with the Trustee at the beginning of each City Fiscal Year an Annual Budget setting forth the ensuing City Fiscal Year in reasonable detail, among other things, estimated Revenues, estimated Operation and Maintenance Expenses, reasonably anticipated unusual and extraordinary expenses, and deposits into each of the Funds established under the Indenture. The City may at any time adopt an amended Annual Budget for the remainder of the then current City Fiscal Year.

At least every five City Fiscal Years the City (through the Airport Commission) has covenanted to prepare and file with the Trustee a Capital Budget for the Airport for the ensuing five City Fiscal Years. The Capital Budget will set forth in reasonable detail the anticipated necessary or appropriate major capital improvements to the Airport during the succeeding five year period, the estimated Cost of Construction of such capital improvements and the anticipated sources of funds for the payment of such Costs. The City may at any time and from time to time adopt an amended Capital Budget for the remainder of the five City Fiscal Years covered thereby and will promptly file any such amendment with

the Trustee. The Capital Budget and any amendments thereto will be available at the offices of the Trustee for inspection by the Bondholders.

*Accounts and Reports.* The City has covenanted to keep or cause to be kept proper books of record and account of the Airport in which complete and correct entries will be made of its transactions relating to the Revenues, each Fund and Account established under the Indenture and which will at all times be subject to the inspection of the Trustee and the Owners of an aggregate of not less than 5% in principal amount of the Bonds then Outstanding or their representatives duly authorized in writing.

The City will annually cause an audit to be made of its books and accounts relating to the Airport for such Airport Fiscal Year by an independent and recognized certified public accountant or firm of independent certified public accountants not in the regular employ of the City. Promptly thereafter reports of each audit will be filed with the Trustee, each Bond Insurer and each rating agency, if any, maintaining a credit rating on any of the Bonds. Each such Audit Report will set forth with respect to such Airport Fiscal Year: (i) a statement of financial condition of the Airport as of the end of such Airport Fiscal Year and the related statement of revenues and expenses for the Airport Fiscal Year then ended, (ii) a summary with respect to each Fund and Account established under the Indenture of the receipts therein and disbursements therefrom; (iii) the details of all Bonds issued, paid, purchased or redeemed, (iv) the amounts on deposit at the end of such Airport Fiscal Year to the credit of each Fund and Account established under the Indenture; (v) the amounts of the proceeds received from any sales of property constituting part of the Airport; and (vi) a list of all insurance policies with respect to the Airport or certificates thereof then held by the City or the Trustee.

The reports, statements and other documents required to be furnished to the Trustee pursuant to any provisions of the Indenture will be available for the inspection of the Bondholders at the office of the Trustee and will be mailed to each Bondholder who will file a written request therefor with the City. The City may charge each Bondholder requesting such reports, statement and other documents, a reasonable fee to cover reproduction, handling and postage.

*Special Facilities.* The City or any other public corporation or public instrumentality will be authorized to finance from the proceeds of obligations, other than Bonds, issued by the City or such other public corporation or public instrumentality which are not payable from Revenues, capital improvements or facilities to be located in any property included under the definition of Airport ("Special Facilities") without regard to any requirements of the Indenture with respect to the issuance of Additional Bonds, provided:

(1) Such obligations are payable solely from rentals or other charges derived by the City or such other public corporation or public instrumentality under a lease, sale or other agreement entered into between the City or such other public corporation or public instrumentality and the person, firm or corporation which will be utilizing the Special Facilities to be financed.

(2) The estimated rentals, payments or other charges (including interest earnings on any reserves) to be derived by the City or such other public corporation or public instrumentality from the lease, sale or other agreement with respect to the Special Facilities to be financed will be at least sufficient to pay the principal of and interest on such obligations, all costs of operating and maintaining such Special Facilities and all sinking fund, reserve or other payments required by the resolution, ordinance or indenture securing such obligations.

(3) The construction and operation of the Special Facilities to be financed will not decrease the Revenues presently projected to be derived from the Airport.

(4) In addition to all rentals, payments or other charges with respect to the Special Facilities to be financed, a fair and reasonable rental for the land upon which said Special Facilities are to be constructed will be charged by the City, and said ground rent will be deemed Revenues derived from the Airport.

The Indenture further provides that the provisions described above are not applicable to or otherwise deemed to limit the right of the City or any other public corporation or public instrumentality to finance the expansion, relocation or other improvement of any airline aviation fueling facilities or in-flight meal preparation facilities located at the Airport on October 15, 1984.

*Continuing Disclosure.* The City has covenanted and agreed that it will comply with and carry out all of the provisions of the Continuing Disclosure Agreement and that such Continuing Disclosure Agreement is intended to be for the benefit of the holders of the Series 2007A Refunding Bonds, including the Beneficial Owners thereof. Notwithstanding any other provision of the Indenture, failure of the City or the Dissemination Agent to comply with the Continuing Disclosure Agreement will not be considered an Event of Default; however, the Trustee may (and, at the request of any of the Underwriters or any Bondholder or Beneficial Owner of 25% or more of the Series 2007A Refunding Bonds then Outstanding is required to) or any Bondholder or Beneficial Owner of Series 2007A Refunding Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the City or the Trustee, as the case may be, to comply with their continuing disclosure obligations. A default under the Continuing Disclosure Agreement will not be a default under the Indenture, and the sole remedy under the Continuing Disclosure Agreement in the event of any failure of the City or the Dissemination Agent to comply with the Continuing Disclosure Agreement is an action to compel performance.

*Tax Covenant of the City.* The City has covenanted that it will comply with the Tax Certificate and that it will neither make nor direct the Trustee to make any investment or other use of the proceeds of the Series 2007A Refunding Bonds that would (a) cause the Series 2007A Refunding Bonds to be “arbitrage bonds” as that term is defined in Section 148(a) of the Code or (b) cause interest paid on the Series 2007A Refunding Bonds to not be excludable from gross income for federal income tax purposes pursuant to Section 103(a) of the Code and that it will comply with the requirements of the Code throughout the term of the Bonds. The Trustee has covenanted that in those instances where it exercises discretion over the investment of funds, it will not knowingly make any investment inconsistent with the foregoing covenants.

The City covenants that it (a) will take, or use its best efforts to require to be taken, all actions that may be required of the City for the interest on the Series 2007A Refunding Bonds to be and remain not included in gross income for federal income tax purposes and (b) will not take or authorize to be taken any actions within its control that would adversely affect that status under the provisions of the Code.

*Covenant of the City to Assess Airlines for Debt Service on Series 2007A Refunding Bonds to the Extent that Other Moneys are Unavailable.* To the extent permissible under federal and other applicable law, the City has covenanted that upon the expiration of the Use Agreements (i.e., after June 30, 2011), the City will establish, fix, prescribe and collect rates, fees, rentals and other charges from the air carriers operating at the Airport in an amount sufficient to pay the debt service on all Bonds outstanding, from time to time, to the extent that other moneys are not available for such purpose.

## Events of Default and Remedies

Each of the following constitutes an event of default (each, an “Event of Default”) under the Indenture:

(A) if default is made in the due and punctual payment of the principal of or Redemption Price of any Bond, whether at maturity or by call for redemption, or otherwise, or in the due and punctual payment of any installment of interest on any Bond or the unsatisfied balance of any Sinking Fund Installment therefor when and as such interest installment or Sinking Fund Installment will become due and payable;

(B) if default is made by the City in the performance or observance of the covenants, agreements and conditions on its part in establishing, fixing, prescribing and collecting rates, fees, rentals and other charges for the use of the Airport in order that in each Airport Fiscal Year the Revenues will be sufficient to pay the Aggregate Debt Service for such Airport Fiscal Year and to provide the funds necessary to make the required deposits in and maintain the several Funds and Accounts established in the Indenture, and in any event, as are required to pay or discharge all indebtedness, charges and liens whatsoever payable out of the Revenues under the Indenture; provided, however, a failure by the City to comply with the foregoing covenant will not constitute an event of default under the Indenture if, (i) within four months of the end of the most recently completed Airport Fiscal Year, the City retains the Airport Consultant for the purpose of making recommendations with respect to the operations of the Airport and the sufficiency of its rates, fees, rentals and other charges, (ii) the Airport Consultant will make the required recommendations to the City within seven months of the end of such Airport Fiscal Year and file same with the Trustee; and (iii) the City will diligently and in good faith follow the recommendations of the Airport Consultant;

(C) if default will be made by the City in the performance or observance of any other of the covenants, agreements or conditions on its part contained in the Indenture or in the Bonds and such default will continue for a period of sixty days after written notice thereof to the City by the Trustee or to the City and to the Trustee by the Owners of not less than twenty-five percent in principal amount of the Bonds Outstanding; provided, however, that if such failure will be such that it can be corrected but cannot be corrected within such sixty day period, it will not constitute an Event of Default if corrective action is instituted within such period and diligently pursued until the failure is corrected;

(D) if the City will file a petition seeking a composition of indebtedness under the Federal bankruptcy laws, or under any other applicable law or statute of the United States of America or of the State of Missouri;

(E) if judgment for the payment of money is rendered against the City as the result of the construction, improvement, ownership, control or operation of the Airport, and any such judgment will not be discharged within twenty-four months after the entry thereof, or an appeal will not be taken therefrom or from the order, decree or process upon which or pursuant to which such judgment will have been granted or entered, in such manner as to set aside or stay the execution of or levy under such judgment, or order, decree or process or the enforcement thereof; or

(F) if an order or decree is entered, with the consent or acquiescence of the City, appointing a receiver or receivers of the Airport or any part thereof, or other revenues therefrom, or if such order or decree having been entered without the consent or acquiescence of the City, will not be vacated or discharged, stayed or appealed within ninety (90) days after the entry thereof;

then and in each and every such case, so long as such Event of Default will not have been remedied, unless the principal of all the Bonds will have already become due and payable, either the Trustee may (by notice in writing to the City), and upon written request of the Owners of not less than twenty-five percent in principal amount of the Bonds Outstanding (by notice in writing to the City and the Trustee) will, declare the principal of all the Bonds then Outstanding, and the interest accrued thereon, to be due and payable immediately, and upon any such declaration the same will become and be immediately due and payable, anything in the Indenture or in any of the Bonds contained to the contrary notwithstanding.

The right of the Trustee to make any such declaration as aforesaid, however, is subject to the condition that if, at any time after such declaration, but before the Bonds will have matured by their terms, all overdue installments of interest upon the Bonds, together with interest on such overdue installments of interest to the extent permitted by law and the reasonable and proper charges, expenses and liabilities of the Trustee, and all other sums then payable by the City under the Indenture (except the principal of, and interest accrued since the next preceding interest date on, the Bonds due and payable solely by virtue of such declaration) will either be paid by or for the account of the City or provision satisfactory to the Trustee will be made for such payment, and all defaults under the Bonds or under the Indenture (other than the payment of principal and interest due and payable solely by reason of such declaration) will be made good or be secured to the satisfaction of the Trustee or provision deemed by the Trustee to be adequate will be made therefor, then and in every such case the Owners of fifty-one percent in principal amount of the Bonds Outstanding, by written notice to the City and to the Trustee, may rescind such declaration and annul such default in its entirety, or, if the Trustee will have acted itself, and if there will not have theretofore delivered to the Trustee written direction to the contrary by the Owners of fifty-one percent in principal amount of the Bonds then Outstanding, then any such declaration will ipso facto be deemed to be rescinded and any such default and its consequences will ipso facto be deemed to be annulled, but no such rescission and annulment will extend to or affect any subsequent default or impair or exhaust any right or power consequent thereon.

If an Event of Default has happened and has not been remedied, then and in every such case, the Trustee, by its agents and attorneys, may proceed, and upon written request of the Owners of not less than twenty-five percent in principal amount of the Bonds Outstanding or the Bond Insurers will proceed, to protect and enforce its rights and the rights of the Owners of the Bonds under the Indenture forthwith by a suit or suits in equity or at law, whether for the specific performance of any covenant contained in the Indenture, or in aid of the execution of any power therein granted, or for an accounting against the City as if the City were the trustee of an express trust, or in the enforcement of any other legal or equitable right as the Trustee, being advised by counsel, will deem most effectual to enforce any of its rights or to perform any of its duties under the Indenture.

The Owners of not less than a majority in principal amount of the Bonds at the time Outstanding may direct the time, method and place of conducting any proceeding for any remedy available to the Trustee, or exercising any trust or power conferred upon the Trustee, provided that the Trustee will have the right to decline to follow any such direction if the Trustee will be advised by counsel that the action or proceeding so directed may not lawfully be taken, or if the Trustee in good faith will determine that the action or proceeding so directed would involve the Trustee in personal liability or be unjustly prejudicial to the Bondholders not parties to such direction.

Regardless of the happening of an Event of Default, the Trustee will have power to, but unless requested in writing by the Owners of not less than 51% in principal amount of the Bonds then Outstanding or the Bond Insurers, and furnished with reasonable security and indemnity, will be under no obligation to, institute and maintain such suits and proceedings as it may be advised will be necessary or expedient to prevent any impairment of the security under the Indenture by any acts which may be unlawful or in

violation of the Indenture, and such suits and proceedings as the Trustee may be advised will be necessary or expedient to preserve or protect its interests and the interest of the Bondholders.

Certain actions required or permitted to be taken under the Indenture by the Holders of any Series 2007A Refunding Bonds may be taken by the Series 2007A Refunding Bond Insurer without any action being taken by the Holders thereof. Any action taken by the Series 2007A Refunding Bond Insurer will be deemed to be the action taken by such Holders of the Series 2007A Refunding Bonds.

### **Restrictions on Bondholders' Actions**

Owner of any Bond will have any right to institute any suit, action or proceeding at law or in equity for the enforcement of any provision of the Indenture or the execution of any trust under the Indenture or for any remedy under the Indenture, unless such Owner will have previously given to the Trustee written notice of the happening of an Event of Default, as provided in the Indenture, and the Owners of at least twenty-five percent in principal amount of the Bonds then Outstanding will have filed a written request with the Trustee, and will have offered it reasonable opportunity, either to exercise the powers granted in the Indenture or by the laws of the State of Missouri or to institute such action, suit or proceeding in its own name, and unless such Owners will have offered to the Trustee adequate security and indemnity against the costs, expenses and liabilities to be incurred therein or thereby, and the Trustee will have refused to comply with such request for a period of thirty days after receipt by it of such notice, request and *offer* of indemnity, it being understood and intended that no one or more Owners of Bonds will have any right in any manner whatever by his or their action to affect, disturb or prejudice the pledge created by the Indenture, or to enforce any right under the Indenture, except in the manner therein provided; and that all proceedings at law or in equity to enforce any provision of the Indenture will be instituted, had and maintained in the manner provided in the Indenture and for the equal benefit of all Owners of the Outstanding Bonds.

### **Waiver of Events of Defaults**

Prior to the declaration of maturity of the Bonds as provided in the Indenture, the Owners of at least fifty-one percent in principal amount of the Bonds at the time Outstanding, or their attorneys-in-fact duly authorized, may on behalf of the Owners of all of the Bonds waive any past default under the Indenture and its consequences, except a default in the payment of interest on or principal of or premium (if any) on any of the Bonds. No such waiver will extend to any subsequent or other default or impair any right consequent thereon.

### **Rights of Bond Insurers upon Default**

All actions permitted to be taken under the Indenture upon the occurrence of an Event of Default by the Owners of any Bonds insured by a Bond Insurer may be taken by such Bond Insurer without any action being taken by such Owner. Any action taken by such Bond Insurer will be deemed to be the action taken by such Owner for purposes of the Indenture.

### **Supplemental Indentures**

For any one or more of the following purposes at any time or from time to time, a Supplemental Indenture of the City may be adopted, which, upon the execution and delivery thereof by the Trustee will be fully effective in accordance with its terms:



(1) To close the Indenture against, or provide limitations and restrictions to the limitations and restrictions contained in the Indenture on, the authentication and delivery of Bonds or the issuance of other evidences of indebtedness;

(2) To add to the covenants and agreements of the City in the Indenture, other covenants and agreements to be observed by the City which are not contrary to or inconsistent with the Indenture as theretofore in effect;

(3) To add to the limitations and restrictions in the Indenture, other limitations and restrictions to be observed by the City which are not contrary to or inconsistent with the Indenture as theretofore in effect;

(4) To provide for the issuance of bearer Bonds and interest coupons and establish appropriate exchange privileges and notice requirements in connection therewith with respect to any Bonds issued or to be issued under the Indenture;

(5) To authorize Bonds of a Series or to determine the terms and details thereof and, in connection therewith, specify and determine certain matters and things pertaining to the issuance of the Bonds, Additional Bonds and Refunding Bonds referred to in the Indenture, and also any other matters and things relative to such Bonds which are not contrary to or inconsistent with the Indenture as theretofore in effect, or to amend, modify or rescind any such authorization, specification or determination at any time prior to the first authentication and delivery of such Bonds;

(6) To confirm, as further assurance, any pledge under, and the subjection to any lien or pledge created or to be created by, the Indenture, of the Revenues, or of any other moneys, securities or funds;

(7) To modify any of the provisions of the Indenture in any respect whatever, provided that (i) the effective date of such modification will be, and expressed to be, effective only after all Bonds of any Series Outstanding at the date of the adoption of such Supplemental Indenture will cease to be Outstanding, and (ii) such Supplemental Indenture will be specifically referred to in the text of all Bonds of any Series authenticated and delivered after the date of the adoption of such Supplemental Indenture and of Bonds issued in exchange therefor or in place thereof;

(8) To cure any ambiguity, supply any omission, or cure or correct any defect or inconsistent provision in the Indenture; or

(9) To insert such provisions clarifying matters or questions arising under the Indenture as are necessary or desirable and are not contrary to or inconsistent with the Indenture as theretofore in effect.

At any time or from time to time, a Supplemental Indenture may be adopted subject to consent by Bondholders in accordance with and subject to the provisions of the Indenture, which Supplemental Indenture, upon the execution and delivery thereof by the Trustee and upon compliance with the provisions of the Indenture, will become fully effective in accordance with its terms as provided in the Indenture.

Any modification or amendment of the Indenture and of the rights and obligations of the City and of the Owners of the Bonds thereunder, in particular, may be made by a Supplemental Indenture, with the

written consent given as provided in the Indenture (i) of the Owners of at least fifty-one percent in principal amount of the Bonds Outstanding at the time such consent is given, and (ii) in case less than all of the several Series of Bonds then Outstanding are affected by the modification or amendment, of the Owners of at least fifty-one percent in principal amount of the Bonds of each Series so affected and Outstanding at the time such consent is given; provided, however, that if such modification or amendment will, by its terms, not take effect so long as any Bonds of any specified like Series and maturity remain Outstanding, the consent of the Owners of such Bonds will not be required and such Bonds will not be deemed to be Outstanding for the purpose of any calculation of Outstanding Bonds under the Indenture. No such modification or amendment will permit a change in the terms of redemption or maturity of the principal of any Outstanding Bond or Sinking Fund Installment or any installment of interest thereon or a reduction in the principal amount or the Redemption Price thereof or in the rate of interest thereon without the consent of the Owner of such Bonds, or will reduce the percentages or otherwise affect the classes of Bonds the consent of the owners of which is required to effect any such modification or amendment, or shall change or modify any of the rights or objections of any Fiduciary without its written assent thereto.

The terms and provisions of the Indenture and the rights and obligations of the City and of the Owners of the Bonds thereunder may be modified or amended in any respect upon the adoption and filing by the City of a Supplemental Indenture and the consent of the Owners of all the Bonds then Outstanding.

The consent of the Owner of any Bond which is entitled to the benefits of a Bond Insurance Policy issued by a Bond Insurer will not be effective unless the Trustee will have received a written consent of such Bond Insurer. For purposes of certain provisions of the Indenture, certain actions required or permitted to be taken thereunder by the owners of any Bonds may be taken by such Bond Insurer without any action being taken by the owners thereof. Any action taken by such Bond Insurer will be deemed to be the action taken by such owners.

### **Discharge of Lien of the Indenture**

If the City will pay or cause to be paid, or there will otherwise be paid, to the Owners of all Bonds the principal or Redemption Price, if applicable, and interest due or to become due thereon, at the times and in the manner stipulated therein and in the Indenture, then the pledge of any Net Revenues, and other moneys and securities pledged under the Indenture and all covenants, agreements and other obligations of the City to the Bondholders; will thereupon cease, terminate and become void and be discharged and satisfied.

Bonds or interest installments for payment or redemption of which moneys will have been set aside and will be held in trust by the Paying Agents (through deposit by the City of funds for such payment or redemption or otherwise) at the maturity or redemption date thereof will be deemed to have been paid within the meaning and with the effect expressed in the Indenture. All Outstanding Bonds of any Series will prior to the maturity or redemption date thereof be deemed to have been paid if (i) in case any of said Bonds are to be redeemed on any date prior to their maturity, the City will have given to the Trustee in form satisfactory to it irrevocable instructions to mail as provided in the Indenture notice of redemption of such Bonds on said date; (ii) there will have been deposited with the Trustee either moneys in an amount which will be sufficient, or Government Securities the principal of and the interest on which when due will provide money which, together with the moneys, if any, deposited with the Trustee at the same time, will be sufficient, to pay when due the principal or premium, if applicable, and interest due and to become due on said Bonds on and prior to the redemption date or maturity date thereof, and all necessary and proper fees, compensation and expenses of the Trustee and Paying Agents pertaining to the Bonds with respect to which such deposit is made will have been paid or the payment thereof provided for to the satisfaction of the Trustee and Paying Agents, respectively, as the case may be; and (iii) in the event said Bonds are not by their terms subject to redemption within the next succeeding sixty days, the

City will have given the Trustee in form satisfactory to it irrevocable instructions to mail, as soon as practicable, to the Owners of such Bonds that the deposit required by (ii) above has been made with the Trustee and that said Bonds are deemed to have been paid in accordance with the Indenture and stating such maturity or redemption date upon which moneys are to be available for the payment of the principal or Redemption Price, if applicable, on said Bonds.

After payment in full of the principal of, redemption premium, if any, and interest on any Series of Bonds (or after provision has been made for the payment thereof as provided in the Indenture), the fees, charges and expenses of the Trustee and Paying Agent, and any other amounts required to be paid under the Indenture relating to such Series of Bonds, all amounts remaining in the accounts or sub-accounts established with the Trustee for such Series of Bonds shall be transferred to the various sub-accounts of the Debt Service Account for the Outstanding Bonds, as directed by the City, unless otherwise directed in a supplemental indenture adopted in accordance with the Indenture.

Anything in the Indenture to the contrary notwithstanding, any moneys held by a Fiduciary in trust for the payment and discharge of any of the Bonds which remain unclaimed for six years after the date when such Bonds have become due and payable, either at their stated maturity dates or by call for earlier redemption, if such moneys were held by the Fiduciary at such date, or for six years after the date of deposit of such moneys if deposited with the Fiduciary after the said date when such Bonds became due and payable, will, unless otherwise provided by law, at the written request of the City, be repaid by the Fiduciary to the City, as its absolute property and free from trust, and the Fiduciary will thereupon be released and discharged with respect thereto and the Bondholders will look only to the City for the payment of such Bonds; provided, however, that before being required to make any such payment to the City and the Fiduciary will, at the expense of the City, cause to be mailed to the Owner of each unpaid Bond, at the address of such Owner as set forth on the Bond register maintained by the Trustee, a notice that said moneys remain unclaimed and that, after a date named in said notice, which date will not be less than 45 days after the date of the mailing of such notice, the balance of such moneys then unclaimed will be returned to the City.

After payment in full of the principal of, redemption premium, if any, and interest on any Series of Bonds (or after provision has been made for the payment thereof as provided in the Indenture), the fees, charges and expenses of the Trustee and Paying Agent, and any other amounts required to be paid under the Indenture relating to such Series of Bonds, all amounts remaining in the accounts or sub-accounts established with the Trustee for such Series of Bonds shall be transferred to the various sub-accounts of the Debt Service Account for the Outstanding Bonds, as directed by the City, unless otherwise directed in a supplemental indenture adopted in accordance with the Indenture.

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## **APPENDIX D**

### **Summary of Certain Provisions of the Use Agreements and the Operating Agreements**

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## APPENDIX D

### SUMMARY OF CERTAIN PROVISIONS OF THE USE AGREEMENTS AND THE OPERATING AGREEMENTS

**The following is a summary of certain provisions of the Use Agreements, the Operating Agreements and the Cargo Addenda. This summary does not purport to be complete or definitive and reference is made to the Use Agreements, the Operating Agreements and the Cargo Addenda for a complete recital of the terms of such documents.**

In 2006, the City entered into substantially identical Airport Use and Lease Agreements (individually with respect to each air carrier, a “Use Agreement” and, collectively, the “Use Agreements”) or Airline Operating Agreements and Terminal Space Use Permits (individually with respect to each air carrier, an “Operating Agreement”, and collectively, the “Operating Agreements”) and, when applicable, a corresponding Cargo Addenda (individually with respect to each air carrier, a “Cargo Addendum”, and collectively, the “Cargo Addenda”) with all major and regional air carriers serving the Airport, thereby replacing the previous airline use agreements that had been in place since 1965.

*Airport Use and Lease Agreement.* The term of the first executed Use Agreement began on January 10, 2006. Each Use Agreement will expire on June 30, 2011, unless earlier terminated by the City for non-performance or default. An air carrier may terminate its Use Agreement if the City fails to keep any material promise or covenant, or if the air carrier is denied the right to operate at the Airport by a governmental agency with competent jurisdiction or, under certain circumstances, if the air carrier is prevented from conducting its air transportation business at the Airport for an extended period of time. The terms of the Use Agreements may be extended by mutual agreement of the parties.

Air carriers operating at the Airport pursuant to the Use Agreements are referred to as “Signatory Airlines.” The Use Agreements grant the Signatory Airlines the right to use the airfield and, as applicable, use and lease certain areas in the passenger terminal buildings, including Concourses, and related facilities for the business of air transportation with respect to persons, property, cargo and mail. The Use Agreements also provide for the payment of certain rentals, fees and charges by the Signatory Airlines, and, under certain circumstances, the application of the landing fee rate mitigation (as discussed below) for the benefit of the airlines. Signatory Airlines that operate from the passenger terminal buildings at the Airport may, but are not required to, lease space in the terminal buildings.

*Participating Airlines.* A Signatory Airline may elect to become a “Participating Airline” by committing to pay a minimum of \$100,000 per year in rents, fees and charges throughout the term of its Use Agreement. Participating Airlines have a limited right to review and approve certain capital improvement projects at the Airport, as well as the right to participate in the Airport’s annual rate setting process (budget review and comment; meet and confer over rents, fees and charges), and, under certain circumstances, are eligible for a waiver of the security deposit requirements of their respective Use Agreements. Participating Airlines may designate certain non-signatory airlines as their “Affiliates.” Affiliates enjoy some, but not all, of the benefits of Signatory Airlines.

*Airlines Rates and Charges Methodology.* The Use Agreements set forth the methodology for computing the user fees and space rentals chargeable to the air carriers. Rentals, fees and charges are assessed to the Signatory Airlines and the other air carriers using the Airport to support the primary activities of the Airport - the airfield and the terminal buildings (including the West Terminal and the East Terminal). The Use Agreements permit the City to adjust rental rates for each rate period to reflect

overpayments and underpayments that occurred during the preceding rate period, and, to the extent necessary, replenish reasonable reserves for uncollected revenues.

*Landing Fees.* Under the terms of the Use Agreements, the Airport landing fees are computed based on a cost center residual rate methodology. In calculating the annual landing fee rate, the total costs of the Airfield are first calculated by adding the following costs for such year allocable to the Airfield Cost Center:

- direct and indirect Operation and Maintenance Expenses;
- amortization of equipment and capital improvements with a net cost of \$100,000 or less (“Capital Outlays”) put into service on or after July 1, 1997, but before January 1, 2006;
- Capital Outlays put into service on or after January 1, 2006;
- depreciation and interest charges attributable to each capital improvement with a net cost in excess of \$100,000 (the “Capital Improvement”) put into service before July 1, 1997;
- amortization of each Capital Improvement put into service on or after July 1, 1997;
- amortization of land investment made on or after July 1, 1997;
- 4% annual interest on the net cost of land investment made prior to July 1, 1997; and
- any replenishment of the Debt Service Reserve Account and the Renewal and Replacement Fund, as may be required by the Indenture.

The “Airfield Requirement” is then calculated by subtracting the following revenue items from the total costs allocable to the Airfield Cost Center:

- non-signatory airline landing fees;
- general aviation landing fees, if any;
- military use fees, if any; and
- fuel flowage fees.

Based on the Airfield Requirement, two different landing fee rates are then calculated:

- the “Unmitigated Landing Fee Rate” – by dividing the Airfield Requirement by the aggregate landed weight of all Signatory Airlines for the particular Fiscal Year; and
- the “Mitigated Landing Fee Rate” – by subtracting from the Airfield Requirement an amount equal to the amount transferred from the Airport Contingency Fund into the Airport Revenue Fund (if any) for landing fee rate mitigation, and then dividing such Mitigated Airfield Requirement by the aggregate landed weight of all Signatory Airlines for the particular Fiscal Year.

The landing fee rate applicable to non-signatory airlines that have signed an Operating Agreement is equal to the landing fee rate calculated in accordance with the Use Agreements. The landing fee payable by each air carrier is then calculated by multiplying that air carrier's actual landed weight for the period in question, by the Unmitigated Landing Fee Rate or the Mitigated Landing Fee Rate, whichever is applicable.

*Terminal Building Space Rentals.* The Use Agreements establish two passenger terminal building cost centers: the East Terminal Cost Center (including the East Terminal, the International Facilities and the four easternmost gates in Concourse D), and the West Terminal Cost Center (including the main terminal and Concourses A, B, C and all but the four easternmost gates in Concourse D). Under the terms of the Use Agreements, Signatory Airlines are charged terminal building rental rates computed



based on a compensatory rate methodology. In calculating the annual rental rate for each terminal cost center, the total annual costs are first calculated by adding the following costs allocable to each terminal cost center:

- direct and indirect Operation and Maintenance Expenses;
- amortization of Capital Outlays put into service on or after July 1, 1997, but before January 1, 2006;
- Capital Outlays put into service on or after January 1, 2006;
- depreciation and interest charges attributable to each Capital Improvement put into service before July 1, 1997;
- amortization of each Capital Improvement put into service on or after July 1, 1997;
- fifty percent (50%) of the total costs in the terminal roadways allocated between each of the terminal buildings based on the ratio that the usable space in each of the terminal buildings is to the aggregate usable space in all terminal buildings; and
- any replenishment of the Debt Service Reserve Account and the Renewal and Replacement Fund, as may be required by the Indenture.

The total costs attributable to each of the terminal buildings is then reduced by the amount of rent payable for apron-level unenclosed space to derive the net cost attributable to each of the terminal buildings. The annual terminal rental rates applicable to the East Terminal Cost Center and the West Terminal Cost Center are then calculated by dividing the net costs attributable to each terminal building by the usable space in each of the respective terminal buildings. Each Signatory Airline pays an annual rent (payable monthly) for the use of its leased premises, if any, equal to the applicable annual terminal rental rate multiplied by the amount of the leased space.

In accordance with the terms of the Use Agreements, the City establishes annually a space use fee applicable to non-signatory airlines equal to 125% of the terminal rental rate payable by the Signatory Airlines in each terminal building.

*Airline Review and Approval of Capital Projects.* Exhibit F to the Use Agreements incorporate all projects in the Airport's 5-year capital improvement program in place as of the effective date of the Use Agreements and provide that the City may proceed – without additional review from the Participating Airlines – with any of the projects listed in Exhibit F, and that the amortization of the net costs of such projects are to be included in the rates, fees, and charges payable by the air carriers. The projects listed in Exhibit F to the Use Agreements include planning services; security enhancements; and projects in the airfield, terminal, landside, and support facilities. In the aggregate, these projects are estimated to cost \$153 million, and are expected to be funded through a combination of federal grants-in-aid, passenger facility charges, Airport Development Funds, and future debt.

In addition, the City may undertake and recover the net costs attributable to a project not included in Exhibit F if the project is either: (i) considered to be a Capital Outlay; (ii) part of a long-term solution to baggage screening for which the City receives no less than 75% of the cost of such project in federal grants-in-aid; or (iii) undertaken (a) to comply with laws and regulations, (b) to comply with the requirements of the Indenture, (c) as an emergency project, (d) to settle claims, satisfy judgments or to comply with judicial orders, (e) to repair casualty damage of the Airport, (f) to mitigate noise as part of a Part 150 program, (g) to conduct environmental investigations and remediation, (h) for safety reasons, or (i) as a project intended to substitute for any of the projects listed in Exhibit F (with certain limitations).

Under the provisions of the Use Agreements, the City must present a capital improvement project to the Participating Airlines for review and discussion if it is a project identified in Exhibit F whose actual

cost is 110% greater than the pre-approved cost, or if it is a project not otherwise excluded from the review requirements as outlined above. Following such presentation, the City may proceed with the project and include the appropriate amortization of the net costs in the rate base unless a Majority-in-Interest (“MII”) notifies the City that the project is disapproved. For purposes of project review, an MII is deemed to be 66.66% of the Participating Airlines operating at the affected cost center that, within the immediately preceding Fiscal Year, have paid no less than 66.66% of the rents, fees, and charges applicable to that cost center.

*Airline Operating Agreements and Terminal Building Space Permits.* The Operating Agreements are month-to-month operating permits that may be terminated by either party by providing the other party 30-day written notice. Air carriers electing to operate at the Airport under the Operating Agreements are considered to be “non-signatory” airlines. The Operating Agreements are short-term permits intended to provide flexibility for charter airlines, new entrants desiring to test the market, and regional airlines that operate at the airport under a contract with other air carriers. Air carriers operating at the Airport pursuant to Operating Agreements are subject to the same landing fee rate as the Signatory Airlines, and are entitled to the benefits of any landing fee rate mitigation. A passenger air carrier that signs an Operating Agreement and requests space in one of the terminal buildings pays a space use fee that is 125% of the terminal rental rate payable by the Signatory Airlines (unless the Operating Agreement airline is designated as an Affiliate by a Participating Airline, in which case its space use fee is calculated using the same terminal rental rate applicable to the Signatory Airlines).

*Allocation of Space in the Terminal Buildings.* Neither the Use Agreements nor the Operating Agreements require an air carrier to lease space in the Airport terminal buildings as a condition precedent to entering into either of those agreements. Signatory Airlines may lease space in the terminal buildings, including exclusive use space and preferential use space. As noted below, air carriers that sign an Operating Agreement may also receive a month-to-month space permit. All gates in the passenger terminal buildings have been designated as preferential use space. In accordance with the Use Agreements, a Signatory Airline’s right to a preferential gate is subject to an average gate utilization requirement (by that air carrier and/or its Affiliate or partner airlines if applicable) of four flight departures each day from that gate. A Signatory Airline that fails to meet the average gate utilization during any given six-month period may be required to relinquish its preferential rights to one or more gates. In addition, under the provisions of the Use Agreements, the City retains the right to accommodate requesting air carriers (either new entrants or incumbents in need of more gate space) in an air carrier’s preferential use gates if similar space cannot be found elsewhere in one of the terminal buildings. Finally, in accordance with the provisions of the Use Agreements and the Operating Agreements, the City retains the right to consolidate, force relinquishment, and/or relocate airline leased space, both preferential use and exclusive space, under certain circumstances and following agreed upon criteria.

*Itinerant Air Carriers.* The City has retained under its exclusive control three gates throughout the terminal buildings where itinerant air carriers can be accommodated and handled by a gate agent. The Airport Commission has established a schedule of fees and charges for the use of the Airport, including the use of the airfield, space in the terminal buildings, and hangars, applicable to all users of the Airport whose activities are not governed by a contract, lease, or agreement, such as a Use Agreement or an Operating Agreement.

*Airport Maintenance.* Under the terms of both the Use Agreements and the Operating Agreements, the City is required to maintain and keep in good repair all of the public areas and facilities of the Airport, including the structures associated with the terminal buildings, the utility systems within the Airport, and all other common use systems owned and operated by the City. For their part, the Signatory Airlines and the air carriers operating at the Airport pursuant to an Operating Agreement are

individually required to repair and maintain in good condition the premises leased or assigned to each of them, including that portion of the utility systems serving each of their exclusive use facilities.

*Cargo Addendum.* Cargo air carriers may elect to operate under either a Use Agreement or an Operating Agreement, but must execute the applicable cargo addendum which prohibits cargo air carriers from operating from the Airport's passenger terminal buildings. Among other things, the cargo addenda for the Use Agreements and the Operating Agreements require cargo air carriers to arrange for operating space at the Airport separately with the City or with a third-party Airport tenant whose rights include providing such space.

*Other Air Carrier Facilities.* The City also has available throughout the Airport, and leases to individual air carriers, space suitable for maintenance activities, cargo operations, and other related facilities. Rental rates for these facilities are adjusted from time-to-time to reflect their fair market value.

*Landing Fee Rate Mitigation.* Recent reductions of total aircraft landed weight at the Airport, caused in large part by the reduction in American Airlines' operations, together with cost increases resulting from the opening of the new parallel runway in April 2006, have placed considerable upward pressure on landing fee rates. In order to mitigate increases in landing fee rates and to provide a more cost-effective operating environment for air carriers serving the Airport, the City will provide, subject to the availability of funds and annual appropriations by the Board of Aldermen, up to \$40 million from internal resources of the Airport, including the Contingency Fund, for a landing fee rate mitigation program over the term of the Use Agreements. The maximum allocation by Fiscal Year of the amounts to be transferred and made available for landing fee rate mitigation is as follows:

FY 2007	\$12,000,000
FY 2008	10,000,000
FY 2009	8,000,000
FY 2010	6,000,000
FY 2011	<u>4,000,000</u>
Total	\$40,000,000

The final allocation by Fiscal Year will be made at the discretion of the City with the objective of smoothing out year-to-year variations in the landing fee rate payable by all air carriers serving the Airport. The landing fee rate mitigation program is structured also to provide a continuing incentive for air service growth at the Airport. Fifty percent of the total annual amounts to be provided for rate mitigation will be made available only so long as the Participating Airlines and their Affiliates maintain their CY 2005 level of air service at the Airport (as measured by their aggregate landed weight), and fifty percent will be made available in increments only as additional thresholds of air service growth are realized, as shown in the following table.

Potential Amounts to be Transferred for Landing Fee Rate Mitigation

<u>Aggregate landed weight in future years vs. CY 2005</u>	<u>FY 2007</u>	<u>FY 2008</u>	<u>FY 2009</u>	<u>FY 2010</u>	<u>FY 2011</u>
100 %	\$6,000,000	\$5,000,000	\$4,000,000	\$3,000,000	\$2,000,000
101 %	\$12,000,000	\$7,000,000	\$5,000,000	\$3,500,000	\$2,100,000
102 %		\$10,000,000	\$6,000,000	\$4,000,000	\$2,200,000
103 %			\$8,000,000	\$4,500,000	\$2,500,000
104 %				\$6,000,000	\$3,000,000
105 %					\$4,000,000

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## **APPENDIX E**

### **DTC Information**

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## APPENDIX E

### DTC INFORMATION

*The information provided immediately below concerning DTC and the Book-Entry-Only System, as it currently exists, has been obtained from DTC and is not guaranteed as to accuracy or completeness by, and is not to be construed as a representation by, the Underwriters or the City. The Underwriters and the City make no assurances that DTC, Direct Participants, Indirect Participants or other nominees of the Beneficial Owners will act in accordance with the procedures described below or in a timely manner.*

#### **Book-Entry-Only System**

The Depository Trust Company (“DTC”), New York, New York, will act as securities depository for the Series 2007A Bonds. The Series 2007A Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee). One fully-registered Series 2007A Bond certificate will be issued for the Series 2007A Bonds, in the aggregate principal amount of such issue, and will be deposited with DTC or its agent.

DTC is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities and Exchange Act of 1934. DTC holds securities that its participants (the “Participants”) deposit with DTC. DTC also facilitates the settlement among Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book-entry-only changes in Participants’ accounts, thereby eliminating the need for physical movement of securities certificates. Direct Participants include securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is owned by a number of its Direct Participants and by the New York Stock Exchange, Inc., the American Stock Exchange, Inc., and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as securities brokers and dealers, banks, and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (the “Indirect Participants”). The Rules applicable to DTC and its Participants are on file with the United States Securities and Exchange Commission.

Purchases of the Series 2007A Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2007A Bonds on DTC’s records. The ownership interest of each actual purchaser of each Series 2007A Bond (the “Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but the Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Series 2007A Bonds are to be accomplished by entries made on the books of Participants acting on behalf of the Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Series 2007A Bonds, except in the event that use of the book-entry-only system for the Series 2007A Bonds is discontinued.

To facilitate subsequent transfers, all Series 2007A Bonds deposited by participants with DTC are registered in the name of DTC’s partnership nominee, Cede & Co. The deposit of the Series 2007A Bonds with DTC and their registration in the name of Cede & Co. effect no change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 2007A Bonds; DTC’s records reflect only the identity of the Direct Participants to whose accounts such Series 2007A Bonds are

credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to the Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Neither DTC nor Cede & Co. will consent or vote with respect to the Series 2007A Bonds. Under its usual procedures, DTC mails an Omnibus Proxy to the City as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Series 2007A Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the Series 2007A Bonds will be made to DTC. DTC's practice is to credit Direct Participants' accounts on payable date in accordance with their respective holdings shown on DTC's records, unless DTC has reason to believe that it will not receive payment on payable date. Payments by Participants to the Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Agent, or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to DTC is the responsibility of the City or the Agent, disbursement of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the Series 2007A Bonds at any time by giving reasonable notice to the City or the Agent. Under such circumstances, in the event that a successor securities depository is not obtained, Series 2007A Bond certificates are required to be printed and delivered. If the City determines (a) that the Securities Depository is unable properly to discharge its responsibilities, or (b) that the Securities Depository is no longer qualified to act as a securities depository and registered clearing agency under the Securities and Exchange Act of 1934, or (c) that the continuation of a book-entry-only system to the exclusion of any Series 2007A Bonds being issued to any Bondowner other than the Securities Depository is no longer in the best interests of the Beneficial Owners of the Series 2007A Bonds, or (d) if the Trustee receives written notice from Participants having interests in not less than 50% of the Series 2007A Bonds Outstanding, as shown on the records of the Securities Depository (and certified to such effect by the Securities Depository), that the continuation of a book-entry-only system to the exclusion of any Series 2007A Bonds being issued to any Bondowner other than the Securities Depository is no longer in the best interests of the Beneficial Owners of the Series 2007A Bonds, then the Trustee shall (a) notify the Bondowners of such determination or such notice and of the availability of certificates to owners requesting the same, and (b) register in the name of and authenticate and deliver Replacement Bonds to the Beneficial Owners or their nominees in principal amounts representing the interest of each, making such adjustments as it may find necessary or appropriate as to accrued interest. The cost of printing, registration, authentication and delivery of Replacement Bonds shall be paid for by the City.



## **APPENDIX F**

### **Form of Opinion of Co-Bond Counsel**

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## **APPENDIX F**

### **FORM OF OPINION OF CO-BOND COUNSEL**

[Letterhead of Co-Bond Counsel]

January 23, 2007

The City of St. Louis, Missouri  
St. Louis, Missouri

UMB Bank, N.A., as Trustee  
St. Louis, Missouri

Re: \$231,275,000 The City of St. Louis, Missouri Airport Revenue Refunding Bonds, Series 2007A (Non-AMT) (Lambert-St. Louis International Airport)

Ladies and Gentlemen:

We have acted as co-bond counsel to the City of St. Louis, Missouri (the “City”) in connection with the issuance by the City of its Airport Revenue Refunding Bonds, Series 2007A (Non-AMT) (Lambert-St. Louis International Airport) (the “Series 2007A Refunding Bonds”). The Series 2007A Refunding Bonds are being issued by the City: (i) to refund certain Outstanding Bonds issued under the hereinafter defined Indenture (the “Refunded Bonds”); (ii) to fund and/or make a deposit to the reserve account for the Series 2007A Refunding Bonds; and (iii) to pay costs of issuing the Series 2007A Refunding Bonds.

We have reviewed the record of proceedings related to the issuance of the Series 2007A Refunding Bonds, including the Constitution and statutes of the State of Missouri (the “State”), including particularly, Chapter 108.170 of the Revised Statutes of Missouri, as amended, the Charter of the City (the “Charter”), Ordinance No. 66700 (the “Ordinance”) of the City adopted by the Board of Aldermen of the City on November 17, 2006, and approved by the Mayor of the City on November 27, 2006, and an Indenture of Trust between the City and UMB Bank, N.A. (as successor to UMB Bank of St. Louis, N.A. (as successor to Mercantile Bank of St. Louis National Association and State Street Bank and Trust Company of Missouri, N.A.)), as trustee (the “Trustee”), dated as of October 15, 1984, as amended and supplemented by the First Supplemental Indenture of Trust between the City and the Trustee dated as of July 1, 1987, the Second Supplemental Indenture of Trust between the City and the Trustee dated as of November 15, 1992, the Third Supplemental Indenture of Trust between the City and the Trustee dated as of August 1, 1993, the Fourth Supplemental Indenture of Trust between the City and the Trustee dated as of December 1, 1993, the Fifth Supplemental Indenture of Trust between the City and the Trustee dated as of April 1, 1996, and the Sixth Supplemental Indenture of Trust between the City and the Trustee dated as of August 1, 1997, as amended and restated by the Amended and Restated Indenture of Trust between the City and the Trustee dated as of October 15, 1984 and amended and restated as of September 10, 1997, as amended and supplemented by the Seventh Supplemental Indenture of Trust between the City and the Trustee dated as of December 1, 1998, the Eighth Supplemental Indenture of Trust between the City and the Trustee dated as of May 1, 2001, the Ninth Supplemental Indenture of Trust between the City and the Trustee dated as of December 1, 2002, the Tenth Supplemental Indenture of Trust between the City and the Trustee dated as of February 1, 2003, the Eleventh Supplemental Indenture of Trust between the City and the Trustee dated as of May 1, 2003, the Twelfth Supplemental Indenture of Trust between the City and the Trustee dated as of May 1, 2004, the Thirteenth Supplemental Indenture of Trust

(the “Thirteenth Supplemental Indenture”) between the City and the Trustee dated as of June 1, 2005 and the Fourteenth Supplemental Indenture of Trust (the “Fourteenth Supplemental Indenture”) between the City and the Trustee dated as of January 1, 2007 (collectively, the “Indenture”), the Tax Certificate as to Arbitrage and the Provisions of Section 103 and 141-150 of the Internal Revenue Code of 1986 (the “Tax Certificate”) and such other matters of fact and law as we have deemed necessary to enable us to render the opinions contained herein. Capitalized terms used and not defined herein shall have the same meanings given to such terms in the Indenture.

We have examined the law and such certified proceedings and other papers as we have deemed necessary to render the following opinions. In rendering the following opinions we have assumed the genuineness of all signatures, the authenticity of all documents tendered to us as originals and the conformity to original documents of all documents submitted to us as certified or photostatic copies. As to questions of fact material to our opinion, we have relied upon representations of the City and we have relied upon the certified proceedings and other certifications and documents furnished to us without undertaking to verify the same by independent investigation, including, without limitation, the Report of Airport Consultant dated December 5, 2006, with respect to the Airport.

We have not been engaged, or undertaken, to review the accuracy, completeness or sufficiency of the Official Statement or other offering material relating to the Series 2007A Refunding Bonds and we express no opinion herein relating to any such matters.

For purposes of this opinion, we have assumed that the Indenture (other than the Fourteenth Supplemental Indenture) has been duly and lawfully executed and delivered by the parties thereto and is in full force and effect.

Based upon the foregoing, we are of the opinion, under existing law, as follows:

1. The Series 2007A Refunding Bonds have been duly authorized, executed and delivered by the City in accordance with the Constitution and statutes of the State of Missouri and the Charter and are valid and binding special and limited obligations of the City, payable solely from the sources provided therefor in the Indenture. The Series 2007A Refunding Bonds and the interest thereon do not constitute a pledge of the faith and credit of the City, the State or any political subdivision of the State.

2. The Ordinance has been duly and lawfully adopted by the City, is in full force and effect, and is valid and binding upon the City and enforceable against the City in accordance with its terms.

3. The Fourteenth Supplemental Indenture has been duly authorized, executed and delivered by the City and, assuming due authorization, execution and delivery by the other party thereto, constitutes a valid and binding obligation of the City in accordance with its terms.

4. The Indenture creates the valid pledge which it purports to create of the moneys, securities and funds included in the Trust Estate and of all Revenues subject to the application thereof for the purposes and on the conditions permitted by the Indenture.

5. The Internal Revenue Code of 1986 (the “Code”), sets forth certain requirements which must be met subsequent to the issuance and delivery of the Series 2007A Refunding Bonds for interest thereon to be and remain excluded from gross income for Federal income tax purposes. Noncompliance with such requirements could cause the interest on the Series 2007A Refunding Bonds to be included in gross income for Federal income tax purposes and not to be exempt from income taxes imposed by the State of Missouri retroactive to the date of issue of the Series 2007A Refunding Bonds. Pursuant to the Indenture and the Tax Certificate, the City has covenanted to comply with the applicable requirements of

the Code in order to maintain the exclusion of the interest on the Series 2007A Refunding Bonds from gross income for Federal income tax purposes pursuant to Section 103 of the Code. In addition, the City has made certain representations and certifications in the Indenture and the Tax Certificate. We have not independently verified the accuracy of those representations and certifications.

Under existing law, assuming compliance with the tax covenants described herein and the accuracy of the aforementioned representations and certifications, interest on the Series 2007A Refunding Bonds is excluded from gross income for Federal income tax purposes under Section 103 of the Code. We are also of the opinion that such interest is not treated as a preference item in calculating the alternative minimum tax imposed under the Code with respect to individuals and corporations. Interest on the Series 2007A Refunding Bonds is, however, included in the adjusted current earnings of certain corporations for purposes of computing the alternative minimum tax imposed on such corporations.

6. Under existing law, and assuming that interest on the Series 2007A Refunding Bonds is excluded from gross income for Federal income tax purposes under Section 103 of the Code, interest on the Series 2007A Refunding Bonds is excluded from Missouri taxable income for the purposes of the personal income tax and corporate income tax imposed by the State of Missouri. No opinion is expressed regarding the applicability with respect to the Series 2007A Refunding Bonds or the interest on the Series 2007A Refunding Bonds of the taxes imposed by the State of Missouri on financial institutions under Chapter 148 of the Revised Statutes of Missouri, as amended.

7. Bond Counsel is further of the opinion that the difference between the principal amount of the Series 2007A Refunding Bonds maturing on July 1, 2019, July 1, 2024 and July 1, 2032 (the "Discount Bonds") and the initial offering price to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters or wholesalers) at which price a substantial amount of such Discount Bonds of the same maturity was sold constitutes original issue discount which is excluded from gross income for Federal income tax purposes to the same extent as interest on the Series 2007A Refunding Bonds. Further, such original issue discount accrues actuarially on a constant interest rate basis over the term of each Discount Bond and the basis of each Discount Bond acquired at such initial offering price by an initial purchaser thereof will be increased by the amount of such accrued original issue discount. The accrual of original issue discount may be taken into account as an increase in the amount of tax-exempt income for purposes of determining various other tax consequences of owning the Discount Bonds, even though there will not be a corresponding cash payment.

Except as stated in paragraphs 5, 6 and 7 above, we express no opinion as to any other Federal or state tax consequences of the ownership or disposition of the Series 2007A Refunding Bonds. Furthermore, we express no opinion as to any Federal, state or local tax law consequences with respect to the Series 2007A Refunding Bonds, or the interest thereon, if any action is taken with respect to the Series 2007A Refunding Bonds or the proceeds thereof upon the advice or approval of other counsel.

It is to be understood that the rights of the holders of the Series 2007A Refunding Bonds and the enforceability thereof, including the enforceability of the documents described above, may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted to the extent constitutionally applicable and that their enforcement may also be subject to the exercise of judicial discretion in appropriate cases.

By rendering the foregoing opinion we do not undertake to advise you of any changes in laws or facts which may occur or come to our attention after the date hereof.

Very truly yours,

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## **APPENDIX G**

### **Summary of the Continuing Disclosure Agreement**

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## APPENDIX G

### SUMMARY OF THE CONTINUING DISCLOSURE AGREEMENT

*The following brief summary of the Continuing Disclosure Agreement (the "Disclosure Agreement") is qualified in its entirety by reference to the Disclosure Agreement, copies of which may be obtained from the City.*

#### Definitions

In addition to the definitions set forth in the Indenture, which apply to any capitalized term used in the Disclosure Agreement unless otherwise defined therein, the following capitalized terms shall have the following meanings, unless the context otherwise requires:

**"Annual Report"** means any Annual Report provided by the City pursuant to, and as described in, the Disclosure Agreement.

**"Beneficial Owner"** means any person which (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of any Series 2007A Bonds (including persons holding Series 2007A Bonds through nominees, depositories or other intermediaries), or (b) is treated as the owner of any Series 2007A Bonds for federal income tax purposes.

**"Central Post Office"** means DisclosureUSA, any successor thereto, or any other conduit entity recognized, authorized or approved by the Securities and Exchange Commission for the submission of Annual Reports and Listed Events to the Repositories. The Central Post Office currently approved by the Securities and Exchange Commission is set forth in the Disclosure Agreement.

**"City"** means The City of St. Louis, Missouri.

**"Dissemination Agent"** means UMB Bank, N.A., acting in its capacity as Dissemination Agent hereunder, or any successor Dissemination Agent designated in writing by the City and which has filed with the City and the Trustee a written acceptance of such designation.

**"Listed Events"** means any of the events listed in the Disclosure Agreement.

**"MSRB"** means the Municipal Securities Rulemaking Board and any successors thereto.

**"National Repository"** means any Nationally Recognized Municipal Securities Information Repository for purposes of the Rule. The National Repositories currently approved by the United States Securities and Exchange Commission as of the date of execution and delivery of the Disclosure Agreement are set forth in the Disclosure Agreement.

**"Official Statement"** means the Official Statement dated January 10, 2007, relating to the issuance and sale of the Series 2007A Bonds.

**"Participating Underwriter"** means any of the original underwriters of the Series 2007A Bonds required to comply with the Rule in connection with the offering of the Series 2007A Bonds.

**"Repository"** means each National Repository and each State Repository, if any.

**“Rule”** means Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

**“State”** means the State of Missouri.

**“State Repository”** means any public or private repository or entity designated by the State as a state repository for the purpose of the Rule and recognized as such by the Securities and Exchange Commission. As of the date of the Disclosure Agreement, there is no State Repository.

### **Purpose of the Disclosure Agreement**

The City and the Dissemination Agent are entering into the Disclosure Agreement for the benefit of the Beneficial Owners of the Series 2007A Bonds and in order to assist the Participating Underwriters in complying with the Rule (as defined below). The City acknowledges no other party has undertaken any responsibility with respect to any reports, notices or disclosures provided or required under the Disclosure Agreement, and has no liability to any person, including any Beneficial Owner of the Series 2007A Bonds, with respect to the Rule. Any air carrier having a use agreement, lease or other agreement or other agreement having a term of more than one year pursuant to which it has paid amounts equal to at least 20% of the Revenues of the Airport for each of the prior two fiscal years is subject to the information reporting requirements of the Securities Exchange Act of 1934, as amended, and in accordance therewith, files reports and other information with the SEC (the “SEC Reports”). The City makes no representation with respect to, and assumes no responsibility for the accuracy or completeness of, any SEC Report filed by, or any information provided by such air carriers.

### **Provision of Annual Reports**

The City shall, or shall cause the Dissemination Agent to, not later than 210 days after the end of the City’s fiscal year (presently June 30), commencing with the report for the 2007 Fiscal Year, provide to each Repository an Annual Report which is consistent with the requirements of the Disclosure Agreement. In each case, the Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in the Disclosure Agreement; provided that the audited financial statements of the City may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if they are not available by that date. If the City’s fiscal year changes, it shall give notice of such change in the same manner as for a Listed Event under the Disclosure Agreement.

Not later than fifteen (15) Business Days prior to the date specified above for providing the Annual Report to the Repositories, the City shall either provide the Annual Report to the Dissemination Agent with instructions to file the Annual Report as specified in the Disclosure Agreement or provide a written certification to the Dissemination Agent and the Trustee (if not the Dissemination Agent) that the City has provided the Annual Report to the Repositories.

If the Dissemination Agent is unable to verify that an Annual Report has been provided to the Repositories by the date required by the Disclosure Agreement, the Dissemination Agent shall send a notice to each Repository, the Municipal Securities Rulemaking Board and the State Repository, if any, in substantially the form attached to the Disclosure Agreement.

The Dissemination Agent shall:

1. if there is no Central Post Office authorized or approved by the Securities and Exchange Commission for the submission of Annual Reports and Listed Events to the

Repositories determine each year prior to the date for providing the Annual Report the name and address of each National Repository and the State Repository, if any; and

2. unless the City has certified in writing that the City has provided the Annual Report to the Repositories, promptly following receipt of the Annual Report and the instructions required by the Disclosure Agreement, provide the Annual Report to the Repositories and file a report with the City and the Trustee (if the Dissemination Agent is not the Trustee) certifying that the Annual Report has been provided pursuant to the Disclosure Agreement, stating the date it was provided, and listing all the Repositories to which it was provided or that the City has certified that it filed the Annual Report.

3. unless the City has provided the Annual Report as provided above, notify the City in each year not later than 90 days and again not later than 30 days prior to the date for providing the Annual Report to the Repositories, of the date on which its Annual Report must be provided to the Dissemination Agent or Repositories.

### **Content of Annual Reports**

The City's Annual Report will contain or include by reference the following:

(1) The audited financial statements of the Airport for the prior fiscal year, prepared in accordance with generally accepted accounting principles as promulgated from time to time by the Financial Accounting Standards Board. If the Airport's audited financial statements are not available by the time the Annual Report is required to be filed pursuant to the Disclosure Agreement, the Annual Report will contain unaudited financial statements in a format similar to the financial statements contained in the final Official Statement, and the audited financial statements will be filed in the same manner as the Annual Report when they become available.

(2) The following statistical and operating data of the Airport, updated for the City's prior Fiscal Year:

- a) The list of Signatory Air Carriers, Non-Signatory Air Carriers and Air Cargo Carriers at the Airport;
- b) The table captioned "Airport Revenues and Expenses and Certain Bond Related Data" contained in the Official Statement in section "FINANCIAL INFORMATION - Revenues and Expenses";
- c) The rate and amount of PFCs assessed and collected by the City;
- d) A table reflecting "O&D AND CONNECTING ENPLANEMENTS" comparable to the table contained in the Official Statement;
- e) A table reflecting "AIRLINE MARKET SHARE" comparable to the table in the Official Statement;
- f) A table reflecting "SUMMARY OF SIGNATORY AIRLINE REVENUES, COST PER ENPLANED PASSENGER AND RATES" comparable to the table in the Official Statement;
- f) A table reflecting "PROJECTED OPERATION AND MAINTENANCE EXPENSES --" comparable to Table 2 in APPENDIX A - "Review of Airport Consultant" in the

Official Statement; and

- g) A table reflecting “CALCULATION OF ANNUAL DEBT SERVICE COVERAGE” comparable to Table 4 in APPENDIX A – “Review of Airport Consultant” in the Official Statement.

Any or all of the items listed above may be included by specific reference to other documents, including official statements of issues with respect to which the City is an “obligated person”, which have been filed with each of the Repositories, the MSRB or the SEC. If the document included by reference is a final official statement, it must be available from the MSRB and clearly identified as such by the City.

### **Reporting of Significant Events**

Pursuant to the provisions of the Disclosure Agreement, the City will give, or cause to be given, notice of the occurrence of any of the following events with respect to the Series 2005 Bonds, if material:

- 1) principal and interest payment delinquencies;
- 2) non-payment related defaults;
- 3) modifications to rights of Bondholders;
- 4) optional, contingent or unscheduled bond calls;
- 5) defeasances;
- 6) rating changes;
- 7) adverse tax opinions or events affecting the tax-exempt status of the Series 2007A Bonds;
- 8) unscheduled draws on debt service reserves reflecting financial difficulties;
- 9) unscheduled draws on credit enhancements reflecting financial difficulties;
- 10) substitution of credit or liquidity providers, or their failure to perform; or
- 11) release, substitution or sale of property securing repayment of the Series 2007A Bonds.

The Dissemination Agent shall, within one (1) Business Day of obtaining actual knowledge of the occurrence of any Listed Event, contact the City, inform such person of the event, and request that the City promptly notify the Dissemination Agent in writing whether or not to report the event pursuant to the Disclosure Agreement.

Whenever the City obtains knowledge of the occurrence of a Listed Event, because of a notice from the Dissemination Agent pursuant to the Disclosure Agreement or otherwise, the City shall, as soon as possible, determine if such event would be material under applicable federal securities laws.

If knowledge of the occurrence of a Listed Event would be material under applicable federal securities laws, the City shall promptly notify the Dissemination Agent in writing and instruct the Dissemination Agent to report the occurrence pursuant to the Disclosure Agreement.

If in response to a request pursuant to the Disclosure Agreement the City determines that the Listed Event would not be material under applicable federal securities laws, the City shall so notify the Dissemination Agent not to report the occurrence pursuant to the Disclosure Agreement.

If the Dissemination Agent has been instructed by the City to report the occurrence of a Listed Event, the Dissemination Agent shall file a timely notice of such occurrence with the MSRB or to National Repositories and each State Repository, with a copy to the City and the Credit Provider.

### **Central Post Office**

The Dissemination Agent shall use the Central Post Office for the submission of Annual Reports and Listed Events for so long as there is any Central Post Office recognized, authorized or approved by the Securities and Exchange Commission. Submission of an Annual Report or a Listed Event by the Dissemination Agent to the Central Post Office shall be deemed to satisfy the Dissemination Agent's obligations under this Disclosure Agreement with respect to that Annual Report or Listed Event.

### **Termination of Reporting Obligations**

The City's obligations under the Disclosure Agreement shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Series 2007A Bonds. If the City's obligations under the Indenture are assumed in full by another entity, such entity shall be responsible for compliance with the Disclosure Agreement in the same manner as if it were the City, and the City will have no further responsibility under the Disclosure Agreement. If such termination or substitution occurs prior to the final maturity of the Series 2007A Bonds, the City shall give notice of such termination or substitution in the same manner as for a Listed Event under of the Disclosure Agreement.

### **Dissemination Agent**

The City may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under the Disclosure Agreement, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by the City pursuant to the Disclosure Agreement. The Dissemination Agent may resign at any time by providing 30 days written notice to the City. The Dissemination Agent also will have no duty or obligation to determine the materiality of the listed events and will not be deemed to be acting in any fiduciary capacity for the City, any Beneficial Owner or any other party. If at any time there is no other designated Dissemination Agent, the Trustee will be the Dissemination Agent.

### **Amendment; Waiver**

Notwithstanding any other provision of the Disclosure Agreement, the City and the Dissemination Agent may amend the Disclosure Agreement (and the execution of such amendment by the Dissemination Agent so requested by the City shall not be unreasonably withheld) and any provision of the Disclosure Agreement may be waived, provided that the following conditions are satisfied:

(1) If the amendment or waiver relates to the provisions of the Annual Report or Listed Events contained in the Disclosure Agreement, it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law or change in the identity, nature or status of an obligated person with respect to the Series 2007A Bonds, or the type of business conducted;

(2) The undertaking, as amended or taking into account such waiver, should, in the opinion of Co-Bond Counsel, have complied with the requirements of the Rule at the time of the original issuance of the Series 2007A Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(3) The amendment or waiver either (i) is approved by the Bondholders of the Series 2007A Bonds in the same manner as provided in the Indenture for amendments to the Indenture with the consent of Bondholders, or (ii) in the opinion of Co-Bond Counsel does not materially impair the interests of the Bondholders or Beneficial Owners of the Series 2007A Bonds.

In the event of any amendment or waiver of a provision of the Disclosure Agreement, the City shall describe such amendment in the next Annual Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or, in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the City. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (i) notice of such change shall be given in the same manner as for a Listed Event under the Disclosure Agreement, and (ii) the Annual Report for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

### **Additional Information**

Nothing in the Disclosure Agreement shall be deemed to prevent the City from disseminating any other information, using the means of dissemination set forth in the Disclosure Agreement or any other means of communication, or including any other information in any Annual Report or notice of the occurrence of a Listed Event, in addition to that which is required by the Disclosure Agreement, provided that the City shall have no obligation to update such information or include it in any future Annual Report or notice of the occurrence of a Listed Event.

### **Default**

In the event of a failure of the City or the Dissemination Agent to comply with any provision of the Disclosure Agreement, the Trustee may (and, upon receipt of satisfactory indemnity and at the request of any Participating Underwriter or the Bondholders or Beneficial Owner of at least 25% aggregate principal amount of Outstanding Bonds, shall), or any Bondholder or Beneficial Owner of at least 25% aggregate principal amount of the Series 2007A Bonds may, take such action as may be necessary and appropriate, including seeking a mandamus or specific performance by court order, to cause the City or the Dissemination Agent, as the case may be, to comply with its obligations under the Disclosure Agreement. A default under the Disclosure Agreement shall not be deemed to be an Event of Default under the Indenture with respect to the Series 2007A Bonds and the sole remedy under the Disclosure Agreement in the event of any failure of the City or the Dissemination Agent to comply with the Disclosure Agreement shall be an action to compel performance.

### **Duties, Immunities and Liabilities of Trustee and Dissemination Agent**

The Dissemination Agent shall have only such duties as are specifically set forth in the Disclosure Agreement and to the extent permitted by applicable law, the City indemnifies and saves the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties under the Disclosure Agreement, including the costs and expenses (including reasonable attorneys fees and expenses) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct.

### **Electronic Means**

The transaction described herein may be conducted and related documents may be stored by electronic means. Copies, telecopies, facsimiles, electronic files and other reproductions of original executed documents shall be deemed to be authentic and valid counterparts of such original documents for all purposes, including the filing of any claim, action or suite in the appropriate court of law.

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## **APPENDIX H**

### **The PFC Program**

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## APPENDIX H

### THE PFC PROGRAM

*Termination of Authority to Impose and Use PFCs.* The FAA may terminate the City's authority to impose PFCs, subject to informal and formal procedural safeguards, if the FAA determines that (i) the City is in violation of certain provisions of the Noise Act (as defined herein) relating to airport noise and access restrictions, (ii) PFCs and investment income thereon are not being used for Approved PFC funding in accordance with the FAA's approvals or with the PFC Act and the PFC Regulations, (iii) implementation of projects financed with PFCs does not commence within the time periods specified in the PFC Act and the PFC Regulations or (iv) the City is otherwise in violation of the PFC Act, the PFC Regulations or the PFC Approvals.

*Informal Resolution Process for PFC Act Violations.* Pursuant to the provisions of the PFC Act, the PFC Regulations provide for an informal process for resolution of possible violations of the PFC Act, PFC Regulations or PFC Approvals. A public agency may also request that the FAA agree in the PFC approval to a specific, informal resolution process that the FAA will follow if it suspects the public agency has committed such a violation.

*Formal Termination Process for PFC Act Violations.* Pursuant to the PFC Regulations, formal termination proceedings are authorized only if the FAA determines that efforts to achieve an informal resolution are not successful. The formal termination process prescribed in the PFC Regulations is to be initiated upon the FAA's filing of a notice, followed by a 60-day period during which the City may submit further comments and take corrective action. The PFC Regulations provide that if corrective action is not taken as prescribed in the notice, the FAA is required to hold a public hearing at least 30 days after notifying the City and publishing a notice of the hearing in the Federal Register. After the public hearing, the City would have 10 days after receiving notice of the FAA's decision to advise the FAA in writing that it will complete any corrective action prescribed in the FAA's decision within 30 days or to provide the FAA with a list of Collecting Carriers, after which the FAA would notify the Collecting Carriers to terminate or to modify the PFC accordingly. The formal termination process would last at least 100 days.

*Noise Act Violations.* The City's authority to impose PFCs may be terminated if the City violates the provisions of the Noise Act. Although the procedures described above do not apply to alleged violations of the Noise Act, the Noise Act and FAA regulations thereunder provide procedural safeguards to ensure that the City's authority to impose PFCs at the Airport will not be summarily terminated because of violations of the Noise Act. In general, the City can prevent termination of its PFC Authority by suspending the effectiveness of any noise or access restriction in question, until the legal sufficiency of the restriction, and its impact on the City's authority to impose PFCs at the Airport, has been determined. The 2000 Approvals, as defined below, include findings by the FAA that the City has not been found to be in violation of the Noise Act and that the FAA is not aware of any proposal at the Airport that would be found to be in violation of the Noise Act.

*Treatment of PFCs in Air Carrier Bankruptcies.* The PFC Act was amended in 1996 to provide that PFCs that are held by a Collecting Carrier constitute a trust fund that is held for the beneficial interest of the eligible agency imposing the PFCs and that the Collecting Carrier holds neither legal nor equitable interest in the PFCs, except for any handling fee or retention of interest collected on unremitted proceeds. In addition, PFC Regulations require Collecting Carriers to account for PFC collections separately and to disclose the existence and amount of funds regarded as trust funds in financial statements. The Collecting Carriers, however, are permitted to commingle PFC collections with their other sources of revenue and are also entitled to retain interest earned on PFC collections until such PFCs must be remitted. Despite

the language in the PFC Act, at least one bankruptcy court in an unpublished opinion has indicated that PFC revenues held by an air carrier in bankruptcy would not be treated as a trust fund and would instead be subject to the general claims of such air carrier's unsecured creditors. In 2003, Congress added a provision (Section 124 of Pub. L. 108-176 (December 12, 2003)) that imposes additional requirements relating to PFC revenues on air carriers filing for bankruptcy after the date of enactment. These air carriers in bankruptcy would have to segregate PFC money so that the airport for which the PFC was collected would be assured of receiving its money should the airline go out of business during the interim period between the date that the PFC was collected and the time it was remitted to the airport. Such air carriers would not be required, however, to put that money in an escrow account.

### **The PFC Program at the City**

*City PFC Approvals.* The Airport has obtained the approval under six PFC applications to impose and use PFCs (on both a pay-as-you-go and leveraged basis). The Airport collected a total of \$31.9 million in PFC Revenues (including investment earnings) in the Fiscal Year ended June 30, 2006. The Airport has FAA approval to collect and use approximately \$1.3 billion in PFC Revenues through March 2017, of which, as of September 30, 2006, approximately \$497.4 million has been collected and \$480.5 million has been expended. The current PFC rate is \$4.50 per passenger, as increased from \$3.00 in December 2001.

## **APPENDIX I**

### **Form of the Municipal Bond Insurance Policy**

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**FINANCIAL  
SECURITY  
ASSURANCE®**

## **MUNICIPAL BOND INSURANCE POLICY**

ISSUER:

Policy No.: -N

BONDS:

Effective Date:

Premium: \$

FINANCIAL SECURITY ASSURANCE INC. ("Financial Security"), for consideration received, hereby UNCONDITIONALLY AND IRREVOCABLY agrees to pay to the trustee (the "Trustee") or paying agent (the "Paying Agent") (as set forth in the documentation providing for the issuance of and securing the Bonds) for the Bonds, for the benefit of the Owners or, at the election of Financial Security, directly to each Owner, subject only to the terms of this Policy (which includes each endorsement hereto), that portion of the principal of and interest on the Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

On the later of the day on which such principal and interest becomes Due for Payment or the Business Day next following the Business Day on which Financial Security shall have received Notice of Nonpayment, Financial Security will disburse to or for the benefit of each Owner of a Bond the face amount of principal of and interest on the Bond that is then Due for Payment but is then unpaid by reason of Nonpayment by the Issuer, but only upon receipt by Financial Security, in a form reasonably satisfactory to it, of (a) evidence of the Owner's right to receive payment of the principal or interest then Due for Payment and (b) evidence, including any appropriate instruments of assignment, that all of the Owner's rights with respect to payment of such principal or interest that is Due for Payment shall thereupon vest in Financial Security. A Notice of Nonpayment will be deemed received on a given Business Day if it is received prior to 1:00 p.m. (New York time) on such Business Day; otherwise, it will be deemed received on the next Business Day. If any Notice of Nonpayment received by Financial Security is incomplete, it shall be deemed not to have been received by Financial Security for purposes of the preceding sentence and Financial Security shall promptly so advise the Trustee, Paying Agent or Owner, as appropriate, who may submit an amended Notice of Nonpayment. Upon disbursement in respect of a Bond, Financial Security shall become the owner of the Bond, any appurtenant coupon to the Bond or right to receipt of payment of principal of or interest on the Bond and shall be fully subrogated to the rights of the Owner, including the Owner's right to receive payments under the Bond, to the extent of any payment by Financial Security hereunder. Payment by Financial Security to the Trustee or Paying Agent for the benefit of the Owners shall, to the extent thereof, discharge the obligation of Financial Security under this Policy.

Except to the extent expressly modified by an endorsement hereto, the following terms shall have the meanings specified for all purposes of this Policy. "Business Day" means any day other than (a) a Saturday or Sunday or (b) a day on which banking institutions in the State of New York or the Insurer's Fiscal Agent are authorized or required by law or executive order to remain closed. "Due for Payment" means (a) when referring to the principal of a Bond, payable on the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity unless Financial Security shall elect, in its sole discretion, to pay such principal due upon such acceleration together with any accrued interest to the date of acceleration and (b) when referring to interest on a Bond, payable on the stated date for payment of interest. "Nonpayment" means, in respect of a Bond, the failure of the Issuer to have provided sufficient funds to the Trustee or, if there is no Trustee, to the Paying Agent for payment in full of all principal and interest that is Due for Payment on such Bond. "Nonpayment" shall also include, in respect of a Bond, any payment of principal or interest that is Due for Payment



made to an Owner by or on behalf of the Issuer which has been recovered from such Owner pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction. "Notice" means telephonic or telecopied notice, subsequently confirmed in a signed writing, or written notice by registered or certified mail, from an Owner, the Trustee or the Paying Agent to Financial Security which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount and (d) the date such claimed amount became Due for Payment. "Owner" means, in respect of a Bond, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof, except that "Owner" shall not include the Issuer or any person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds.

Financial Security may appoint a fiscal agent (the "Insurer's Fiscal Agent") for purposes of this Policy by giving written notice to the Trustee and the Paying Agent specifying the name and notice address of the Insurer's Fiscal Agent. From and after the date of receipt of such notice by the Trustee and the Paying Agent, (a) copies of all notices required to be delivered to Financial Security pursuant to this Policy shall be simultaneously delivered to the Insurer's Fiscal Agent and to Financial Security and shall not be deemed received until received by both and (b) all payments required to be made by Financial Security under this Policy may be made directly by Financial Security or by the Insurer's Fiscal Agent on behalf of Financial Security. The Insurer's Fiscal Agent is the agent of Financial Security only and the Insurer's Fiscal Agent shall in no event be liable to any Owner for any act of the Insurer's Fiscal Agent or any failure of Financial Security to deposit or cause to be deposited sufficient funds to make payments due under this Policy.

To the fullest extent permitted by applicable law, Financial Security agrees not to assert, and hereby waives, only for the benefit of each Owner, all rights (whether by counterclaim, setoff or otherwise) and defenses (including without limitation, the defense of fraud), whether acquired by subrogation, assignment or otherwise, to the extent that such rights and defenses may be available to Financial Security to avoid payment of its obligations under this Policy in accordance with the express provisions of this Policy.

This Policy sets forth in full the undertaking of Financial Security, and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto. Except to the extent expressly modified by an endorsement hereto, (a) any premium paid in respect of this Policy is nonrefundable for any reason whatsoever, including payment, or provision being made for payment, of the Bonds prior to maturity and (b) this Policy may not be canceled or revoked. THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW.

In witness whereof, FINANCIAL SECURITY ASSURANCE INC. has caused this Policy to be executed on its behalf by its Authorized Officer.

[Countersignature]

FINANCIAL SECURITY ASSURANCE INC.

By \_\_\_\_\_

By \_\_\_\_\_

Authorized Officer

A subsidiary of Financial Security Assurance Holdings Ltd.  
31 West 52<sup>nd</sup> Street, New York, N.Y. 10019

(212) 826-0100

Form 500NY (5/90)



## **APPENDIX J**

### **Form of the Municipal Bond Debt Service Reserve Insurance Policy**

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**FINANCIAL  
SECURITY  
ASSURANCE®**

## **MUNICIPAL BOND DEBT SERVICE RESERVE INSURANCE POLICY**

ISSUER:

BONDS:

Policy No.: --R

Effective Date:

Premium: \$

Termination Date:

FINANCIAL SECURITY ASSURANCE INC. ("Financial Security"), for consideration received, hereby UNCONDITIONALLY AND IRREVOCABLY agrees to pay to the trustee (the "Trustee") or paying agent (the "Paying Agent") as set forth in the documentation (the "Bond Document") providing for the issuance of and securing the Bonds, for the benefit of the Owners, subject only to the terms of this Policy (which includes each endorsement hereto), that portion of the principal of and interest on the Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

Financial Security will make payment as provided in this Policy to the Trustee or Paying Agent on the later of the Business Day on which such principal and interest becomes Due for Payment or the Business Day next following the Business Day on which Financial Security shall have received Notice of Nonpayment, in a form reasonably satisfactory to it. A Notice of Nonpayment will be deemed received on a given Business Day if it is received prior to 1:00 p.m. (New York time) on such Business Day; otherwise, it will be deemed received on the next Business Day. If any Notice of Nonpayment received by Financial Security is incomplete, it shall be deemed not to have been received by Financial Security for purposes of the preceding sentence and Financial Security shall promptly so advise the Trustee, Paying Agent or Issuer, as appropriate, who may submit an amended Notice of Nonpayment. Payment by Financial Security to the Trustee or Paying Agent for the benefit of the Owners shall, to the extent thereof, discharge the obligation of Financial Security under this Policy. Upon such payment, Financial Security shall become entitled to reimbursement of the amount so paid (together with interest and expenses) pursuant to the **[Bond Document] [Insurance Agreement]**.

The amount available under this Policy for payment shall not exceed the Policy Limit. The amount available at any particular time to be paid to the Trustee or Paying Agent under the terms of this Policy shall automatically be reduced by any payment under this Policy. However, after such payment, the amount available under this Policy shall be reinstated in full or in part, but only up to the Policy Limit, to the extent of the reimbursement of such payment (exclusive of interest and expenses) to Financial Security by or on behalf of the Issuer. Within three Business Days of such reimbursement, Financial Security shall provide the Trustee, the Paying Agent and the Issuer with notice of the reimbursement and reinstatement.

Payment under this Policy shall not be available with respect to (a) any Nonpayment that occurs prior to the Effective Date or after the Termination Date of this Policy or (b) Bonds that are not outstanding under the Bond Document. If the amount payable under this Policy is also payable under another insurance policy or surety bond insuring the Bonds, payment first shall be made under this Policy to the extent of the amount available under this Policy up to the Policy Limit. In no event shall Financial Security incur duplicate liability for the same amounts owing with respect to the Bonds that are covered under this Policy and any other insurance policy or surety bond that Financial Security has issued.

Except to the extent expressly modified by an endorsement hereto, the following terms shall have the meanings specified for all purposes of this Policy. "Business Day" means any day other than (a) a Saturday or Sunday or (b) a day on which banking institutions in the State of New York are, or the Insurer's Fiscal Agent is, authorized or required by law or executive order to remain closed. "Due for Payment" means (a) when referring to the principal of a Bond, payable on the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity unless Financial Security shall elect, in its sole discretion, to pay such principal due upon such acceleration together with any accrued interest to the date of acceleration and (b) when referring to



interest on a Bond, payable on the stated date for payment of interest. "Insurance Agreement" means the Insurance Agreement dated as of the effective date hereof in respect of this Policy, as the same may be amended or supplemented from time to time. "Nonpayment" means, in respect of a Bond, the failure of the Issuer to have provided sufficient funds to the Paying Agent for payment in full of all principal and interest that is Due for Payment on such Bond. "Nonpayment" shall also include, in respect of a Bond, any payment of principal or interest that is Due for Payment made to an Owner by or on behalf of the Issuer that has been recovered from such Owner pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction. "Notice" means telephonic or telecopied notice, subsequently confirmed in a signed writing, or written notice by registered or certified mail, from the Issuer, the Trustee or the Paying Agent to Financial Security which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount and (d) the date such claimed amount became Due for Payment. "Owner" means, in respect of a Bond, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Bond to payment of principal or interest thereunder, except that "Owner" shall not include the Issuer or any person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds. "Policy Limit" shall be the dollar amount of the debt service reserve fund required to be maintained for the Bonds by the Bond Document from time to time (the "Debt Service Reserve Requirement"), but in no event shall the Policy Limit exceed \$ . The Policy Limit shall automatically and irrevocably be reduced from time to time by the amount of each reduction in the Debt Service Reserve Requirement, as provided in the Bond Document.

Financial Security may appoint a fiscal agent (the "Insurer's Fiscal Agent") for purposes of this Policy by giving written notice to the Trustee and the Paying Agent specifying the name and notice address of the Insurer's Fiscal Agent. From and after the date of receipt of such notice by the Trustee and the Paying Agent, (a) copies of all notices required to be delivered to Financial Security pursuant to this Policy shall be simultaneously delivered to the Insurer's Fiscal Agent and to Financial Security and shall not be deemed received until received by both and (b) all payments required to be made by Financial Security under this Policy may be made directly by Financial Security or by the Insurer's Fiscal Agent on behalf of Financial Security. The Insurer's Fiscal Agent is the agent of Financial Security only and the Insurer's Fiscal Agent shall in no event be liable to any Owner for any act of the Insurer's Fiscal Agent or any failure of Financial Security to deposit or cause to be deposited sufficient funds to make payments due under this Policy.

To the fullest extent permitted by applicable law, Financial Security agrees not to assert, and hereby waives, only for the benefit of each Owner, all rights (whether by counterclaim, setoff or otherwise) and defenses (including, without limitation, the defense of fraud), whether acquired by subrogation, assignment or otherwise, to the extent that such rights and defenses may be available to Financial Security to avoid payment of its obligations under this Policy in accordance with the express provisions of this Policy.

This Policy sets forth in full the undertaking of Financial Security, and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto. Except to the extent expressly modified by an endorsement hereto, (a) any premium paid in respect of this Policy is nonrefundable for any reason whatsoever, including payment, or provision being made for payment, of the Bonds prior to maturity and (b) this Policy may not be cancelled or revoked. THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW.

In witness whereof, FINANCIAL SECURITY ASSURANCE INC. has caused this Policy to be executed on its behalf by its Authorized Officer.

[Countersignature]

FINANCIAL SECURITY ASSURANCE INC.

By \_\_\_\_\_

By \_\_\_\_\_

Authorized Officer

A subsidiary of Financial Security Assurance Holdings Ltd.  
31 West 52<sup>nd</sup> Street, New York, N.Y. 10019

(212) 826-0100